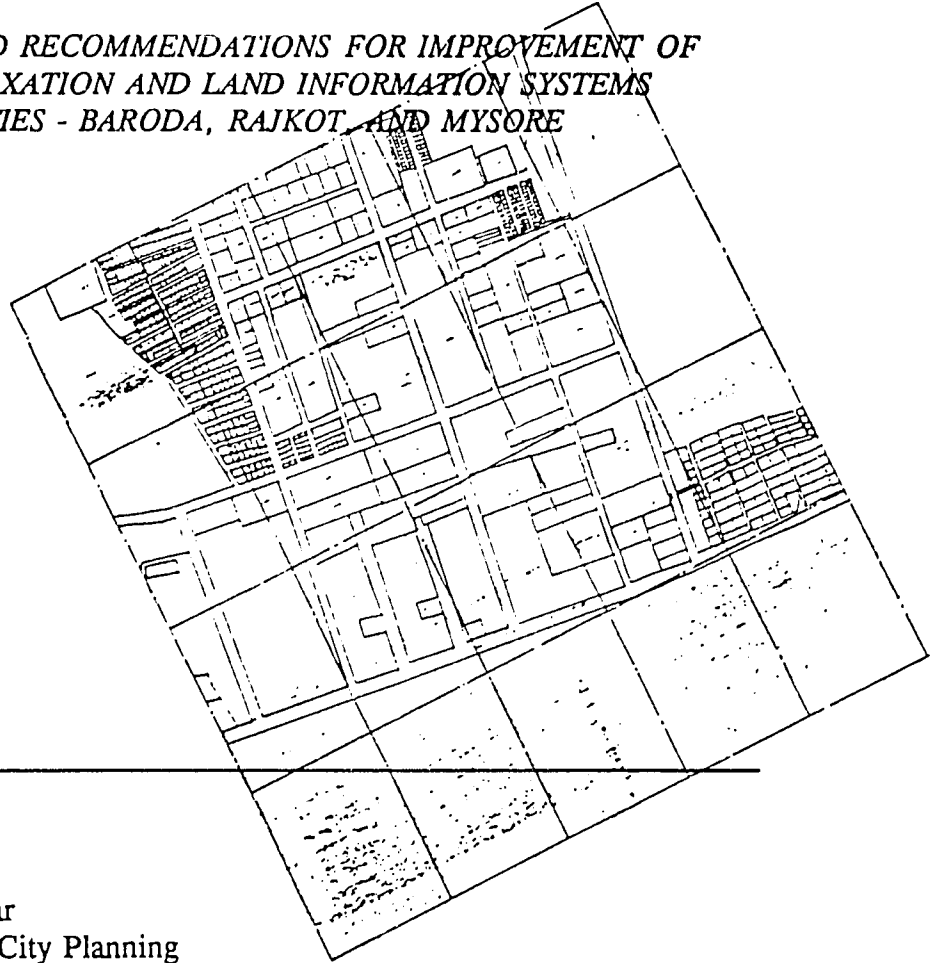


PN. ARU-594

94100

**CONSTRAINTS TO LOCAL GOVERNMENT REVENUE
GENERATION THROUGH PROPERTY TAX
IN URBAN INDIA**

*ANALYSIS AND RECOMMENDATIONS FOR IMPROVEMENT OF
PROPERTY TAXATION AND LAND INFORMATION SYSTEMS
IN THREE CITIES - BARODA, RAJKOT, AND MYSORE*



prepared by

Nilanjana Sarkar
Department of City Planning
University of Pennsylvania
Philadelphia, PA, U.S.A.

for the

U.S. Agency for International Development
Regional Housing and Urban Development Office
New Delhi, India

ACKNOWLEDGEMENTS

I owe an enormous debt of gratitude to my colleagues, local officials in India, teachers, and friends.

I would like to thank Mr. Peter Kimm, Director, and Mr. Jim Stein, Urban Development Officer, Office of Environment and Urban Programs/USAID, who provided all the necessary support from the beginning till the end. I would also like to thank Mr. Earl Kessler, Director, Mr. Charles Billand and Mr. Bhattacharjee, Regional Housing and Urban Development Office/USAID/India, who guided me through the study.

I am tremendously indebted to Prof. Marja Hoek-Smit, my advisor, and Prof. John C. Keene, Chair, Department of City Planning, University of Pennsylvania, for their unwavering support and encouragement before, through, and well after the conclusion of the study. Since this paper is also my master's thesis, their guidance was especially valuable in creating a paper that would be acceptable to the academic as well as the professional world.

I am grateful to the officials of Baroda, Rajkot, and Mysore for their warm welcome and assistance. In particular, I would like to thank Mr. S.K. Nanda, Commissioner, and Mr. Ravikant Joshi, Chief Accountant, Baroda Municipal Corporation; Prof. Chetan Vaidya, M.S. University, Baroda; Mr. I.P. Gautam, Commissioner, Rajkot Municipal Corporation; Mr. Siddhartha, Commissioner, and Mr. Krishna Gowda, Revenue Officer, Mysore City Corporation.

A personal note of thanks to Adit, the Karlekars, Noddy, Rohit, Ravi, Astri, and especially to Michael and my family.

To mention everyone else by name would result in a list so long as to read like cold accounting. Instead I extend a warm word of thanks.

A



TABLE OF CONTENTS

EXECUTIVE SUMMARY i

GLOSSARY xi

CHAPTER 1

INTRODUCTION 1

- 1.1 BACKGROUND 1
- 1.2 PURPOSE AND OBJECTIVE OF THE STUDY 2
- 1.3 RESEARCH DESIGN AND METHODOLOGY 4
 - 1.3.i Data Collection 4
 - 1.3.ii Data Analysis 6
 - 1.3.iii Implications and Recommendations 6
- 1.4 STRUCTURE OF THE REPORT 6

CHAPTER 2

URBAN LAND INFORMATION AND PROPERTY TAXATION SYSTEMS:

A STUDY OF THREE CITIES 9

- 2.1 BACKGROUND 9
- 2.2 THE CITIES -- A BRIEF INTRODUCTION 10
- 2.3 THE LAND INFORMATION SYSTEM 10

| | | |
|---------|--|----|
| 2.3.i | Institutions: | 10 |
| 2.3.ii | Basic Maps | 14 |
| 2.3.iii | System of Maintaining Land Records | 15 |
| 2.3.iv | System of Property Registration | 21 |
| 2.4 | THE INTERFACE BETWEEN THE LAND INFORMATION AND URBAN PROPERTY TAXATION SYSTEM | 23 |
| 2.5 | URBAN PROPERTY TAXATION SYSTEM | 23 |
| 2.5.i | Sources of Local Government Finance | 23 |
| 2.5.ii | Property Taxation Structure | 27 |
| 2.5.iii | The Process of Property Tax Administration | 29 |
| 2.6 | TAX RECOVERY PERFORMANCE | 35 |

CHAPTER 3

**CONSTRAINTS IN THE URBAN LAND INFORMATION AND
PROPERTY TAXATION SYSTEMS**

| | | |
|---------|--|----|
| | | 37 |
| 3.1 | BACKGROUND | 37 |
| 3.2 | THE LAND INFORMATION SYSTEM | 37 |
| 3.2.i | Multiplicity of Institutions - Fragmented System of Maintaining Land and Property Information Records | 38 |
| 3.2.ii | Lack of institutional coordination | 38 |
| 3.2.iii | Complexity of procedures | 40 |
| 3.2.iv | High cost of registered transfer of title | 40 |
| 3.2.v | Exclusion of unauthorized properties | 40 |
| 3.2.vi | System of Cadastral Surveying and Mapping | 41 |
| 3.2.vii | Administrative inefficiency in updating of existing records | 41 |
| 3.3 | PROPERTY TAXATION SYSTEM | 42 |
| 3.3.i | Method of Discovery | 43 |
| 3.3.ii | Valuation and Assessment Techniques | 45 |
| 3.3.iii | Billing | 47 |
| 3.3.iv | Collection Efficiency | 48 |
| 3.3.v | Tax Rate and the Policy Environment | 49 |

CHAPTER 4

**RECOMMENDATIONS FOR ESTABLISHING WELL-FUNCTIONING URBAN LAND
INFORMATION AND PROPERTY TAXATION SYSTEMS**

| | | |
|-----|--|----|
| 4.1 | BACKGROUND | 51 |
| 4.2 | INEFFICIENCIES AND THEIR SOURCES | 52 |

C

| | | |
|---------|---|----|
| 4.2.i. | Land Information System | 52 |
| 4.2.ii | Property Taxation System | 52 |
| 4.3 | GENERAL RECOMMENDATIONS | 54 |
| 4.3.i | Reform of Central/State Government Policies | 54 |
| 4.3.ii | Reform of Local Government Policies | 56 |
| 4.3.iii | Institutional and Administrative Reform | 58 |
| 4.3.iv | Technical Reform | 62 |
| 4.4 | RECOMMENDATIONS FOR TRAINING AND TECHNICAL ASSISTANCE | 63 |
| 4.4.i | Reform of Central/State Government Policies | 64 |
| 4.4.ii | Reform of Local Government Policies | 64 |
| 4.4.iii | Institutional and Administrative Reform | 65 |
| 4.4.iv | Technical Reform | 66 |
| 4.4.v | Demonstration Pilot Project | 68 |

ANNEXES

| | | |
|-----------------------------------|--|----|
| ANNEX I | | |
| WORK PROGRAM FOR THE STUDY | | 69 |

| | | |
|---------------------------|--|----|
| ANNEX II | | |
| THE CITY OF BARODA | | 73 |

| | | |
|------|--------------------------|----|
| II.1 | Background | 73 |
| II.2 | Land Information System | 74 |
| II.3 | Property Taxation System | 84 |

| | | |
|---------------------------|--|----|
| ANNEX III | | |
| THE CITY OF RAJKOT | | 93 |

| | | |
|-------|--------------------------|-----|
| III.1 | Background | 93 |
| III.2 | Land Information System | 94 |
| III.3 | Property Taxation System | 104 |

| | | |
|---------------------------|--|-----|
| ANNEX IV | | |
| THE CITY OF MYSORE | | 115 |

| | | |
|------|--------------------------|-----|
| IV.1 | Background | 115 |
| IV.2 | Land Information System | 116 |
| IV.3 | Property Taxation System | 126 |

ANNEX V
COMPARATIVE SURVEY OF REAL MARKET RENTS AND ARVS:BARODA 135

ANNEX VI
FORMULA-BASED ARV ASSESSMENT TECHNIQUE: MYSORE 139

REFERENCES 143

LIST OF FIGURES IN TEXT

CHAPTER I

1.1.i Cities of Baroda and Rajkot in Gujarat and Mysore in Karnataka: India 3

CHAPTER II

2.2.i State of Gujarat 11
2.2.ii Baroda and Rajkot in Gujarat 11
2.2.iii State of Karnataka 11
2.2.iv City of Mysore in Karnataka 11
2.3.i City Survey Map divided into wards: Rajkot 16
2.3.ii Map showing five wards under the purview of one superintendent: Rajkot 16
2.3.iii Ward map divided into 'Plane Table Sheet' areas: Rajkot 16
2.3.iv Changes and subdivision updated in the original survey map: Rajkot 16
2.3.v City Survey Map showing division of wards: Mysore 17
2.3.vi Local Area Map of the Fort *Mohalla*: Mysore 17
2.3.vii Map of one Plane Table Sheet: Mysore 17
2.3.viii Licensed Deed Writers prepare *Sale Deeds* for a charge: Mysore 18
2.3.ix Property Cards filed and stored at the City Survey Office: Baroda 19
2.3.x A typical Property Card in Baroda 20
2.3.xi Informal entrepreneurs sit outside the Corporation to help citizens wade through the complex maze of official procedures and forms 21
2.5.i Sources of Local Government Finance: Baroda, Rajkot, and Mysore. 24-26
2.5.ii Ward Map of Baroda 28
2.5.iii Ward map of Rajkot 28
2.5.iv Ward map of Mysore 28
2.6.i Tax Recovery Performance of Baroda, Rajkot, and Mysore 36

CHAPTER III

3.2.i Institutions and their functions in the Land Information System 39

CHAPTER IV

4.4.i Generalized scheme of revenue loss from India's Property Taxation System 67

LIST OF FIGURES IN ANNEXES

ANNEX II

| | | |
|----------|--|----|
| II.1.i | State of Gujarat | 73 |
| II.1.ii | City of Baroda in Gujarat | 73 |
| II.1.iii | Ward Map of Baroda | 75 |
| II.2.i | Map of one 'tikka' | 77 |
| II.2.ii | A typical 'Property Card' | 79 |
| II.2.iii | Division lines of a property as laid out by the City Survey Office | 83 |

ANNEX III

| | | |
|-----------|--|-----|
| III.1.i | State of Gujarat | 93 |
| III.1.ii | City of Rajkot in Gujarat | 93 |
| III.1.iii | Ward map of Rajkot | 95 |
| III.2.i | Map showing five wards under the purview of one superintendent | 99 |
| III.2.ii | City Survey Map divided into wards | 99 |
| III.2.iii | Ward map divided into 'Plane Table Sheet' areas | 99 |
| III.2.iv | Changes and subdivision updated in the original survey map of Rajkot | 100 |

ANNEX IV

| | | |
|----------|---|-----|
| IV.1.i | State of Karnataka | 115 |
| IV.1.ii | City of Mysore in Karnataka | 115 |
| IV.1.iii | Ward map of Mysore | 117 |
| IV.2.i | City Survey Map showing division of wards in Mysore | 121 |
| IV.2.ii | Local Area Map of the Fort <i>Mohalla</i> | 122 |
| IV.2.iii | Map of one Plane Table Sheet | 122 |

LIST OF TABLES IN TEXT

CHAPTER 2

| | | |
|-------|--|----|
| 2.3.i | Procedure of Property Registration | 22 |
|-------|--|----|

CHAPTER 4

| | | |
|--------|--|----|
| 4.2.i | Inefficiencies and their sources: Land Information System | 52 |
| 4.2.ii | Inefficiencies and their sources: Property Taxation System | 52 |

4

LIST OF TABLES IN ANNEXES

CHAPTER 2

ANNEX I

| | | |
|-------|---|----|
| I.1.i | Detailed Work Program for the Study | 71 |
|-------|---|----|

ANNEX II

| | | |
|----------|---|----|
| II.3.i | Sources of Local Government Finance - BMC (Rs. in millions) | 84 |
| II.3.i | Conservancy Tax Rates for different uses of properties in Baroda | 88 |
| II.3.ii | Slabs of rateable values , number of properties and current tax rates: Baroda | 89 |
| II.3.iii | Statement showing demands, collection and percentage collection of Property Tax | 91 |

ANNEX III

| | | |
|-----------|--|-----|
| III.3.i | Sources of Local Government Finance - RMC (Rs. in millions) | 105 |
| III.3.ii | Conservancy tax rate structure in Rajkot | 111 |
| III.3.iii | Rate structure for Education Cess in Rajkot | 112 |
| III.3.iv | Rate structure of House Tax in Rajkot | 113 |
| III.3.v | Target, collection and percentage collection of Property Tax in Rajkot | 114 |

ANNEX IV

| | | |
|----------|---|-----|
| IV.3.i | Sources of Local Government Finance -- MCC (Rs. in millions) | 127 |
| IV.3.ii | Number of properties within the jurisdiction of Mysore City Corporation | 129 |
| IV.3.iii | Property tax recovery performance of the Mysore City Corporation | 134 |

ANNEX V

| | | |
|-------|--|-----|
| V.1.i | Comparison of the assessed ARV and actual market rental value in Baroda. | 135 |
|-------|--|-----|

ANNEX VI

| | | |
|---------|---|-----|
| VI.2.i: | Ratios for houses with different flooring and roofing materials | 140 |
|---------|---|-----|

. 9



EXECUTIVE SUMMARY

S.1 BACKGROUND

Adequate provision of urban infrastructure and social services is crucial to the continued productivity of urban economies. In India, as in most developing nations, local governments are responsible for provision and administration of these services. With growing concentration of population in urban areas provision of basic services has become an increasingly serious concern for local governments. Principal sources of finance for local governments are transfers from central and state governments, and local revenues. Under India's ongoing liberalization program, with shrinking intergovernmental transfers local governments are becoming increasingly reliant on their own sources of municipal finance.

Among the local taxes, the Octroi and the Property Tax are the principal revenue generating taxes for local governments in India. Property Tax alone contributes approximately 20% or a fifth of the local revenue, while the Octroi contributes the largest share, ranging from 20% to 50% of revenue collected by the local municipalities in India. Due to the inter-relationship of Property Tax and provision of services and infrastructure, efficient functioning of the Property Taxation System is critical to the capacity of local governments in provision of urban infrastructure and serviced land. Though the economic case for Property Tax is strong, in most cases it generates little revenue, often due to poor administration or inadequate tax policies, and inadequate Land and Property Information System.

The United States Agency for International Development (USAID) has expressed a keen interest in the development of urban land in developing nations. USAID/India has proposed to provide technical and financial support and to undertake studies on the feasibility of developing a commercially viable system that would enable state/local governments in India to finance infrastructure projects. To support this initiative, USAID/India has initiated this study on Urban Property Taxation and Land Information Systems in Urban India. The Regional Housing and

Urban Development Office (RHUDO) of USAID/India selected the cities of Baroda and Rajkot in Gujarat, and Mysore in Karnataka as the focus for this study. The population of the cities range from 1.16 million in Baroda, 0.65 million in Mysore, to 0.45 million in Rajkot. Following is a brief summary of the issues and recommendations for improving the Land Information and Property Taxation System in three cities.

S.2 LAND INFORMATION AND PROPERTY TAXATION SYSTEM

Objectives: The objectives of this study are: (1) researching the status of Property Taxation and Land Information Systems, (2) identifying the causes of revenue leakages in the Property Taxation System, (3) analyzing the regulatory and institutional constraints to efficient functioning of the Systems, and (4) recommending means of addressing these bottlenecks through training and technical assistance. Because the Property Taxation System depends on a comprehensive inventory of properties, it has been necessary to study and analyze the policies and procedures of the Land Information System relating to the revenue generated through Property Tax.

Methodology: This study reviews the existing systems of Property Taxation and Land Information in the cities of Baroda and Rajkot in Gujarat, and Mysore in Karnataka. The study was undertaken through field visits and detailed research and analysis of institutional policies, procedures and available documents, of each institutions involved in Land Information and Property Taxation, in the cities. The Workplan presented in Annex I outlines the schedule of field visits and stages of the study, as approved by RHUDO - USAID/India.

Structure of the Study: The study is presented in four chapters and detailed Annexes. *Chapter 1* presents detailed objective and methodology of the study. Due to the similarity of the policies and practices in the three cities, the main body of the report presents a description, summary analysis, and recommendations for Land Information and Urban Property Taxation System as observed across the three cities, in *Chapters 2, 3, and 4*, respectively. Detailed studies of the status and constraints of the systems as practiced in the individual cities -- Baroda, Rajkot and Mysore -- are presented in *Annex II, III, and IV* respectively.

S.3 INSTITUTIONS

Land management, registration and information systems are administered principally by central and state government bodies, under central government regulatory and policy guidelines. As a result, the functioning of the land management system and related institutions are similar in all the three cities. The Property Taxation System is administered by the local government, within policy and regulatory guidelines established by the central government. Therefore, the policies and practices adopted by the local governments are also largely similar, although a few institutional differences exist.

S.3.i Land Information System

A range of state government institutions maintain land and property information, each for distinctly different purposes from the other. Because there is no comprehensive inventory of all properties at any of these institutions, it has been necessary to study all the information sources and institutions involved with land at the city level. These are:

- a. The Sub-registrar's Office: A division of the District Collectorate, under the jurisdiction of the respective state governments, this office is responsible for registration and records of all properties that have undergone transfer of ownership either by sub-division, inheritance or by sale of the property.
- b. The City Survey Office: Also a division of the District Collectorate, the City Survey Office is entrusted with the function of maintaining cadastral maps and property records of all legally occupied properties in the city
- c. The Urban Land Ceiling Division: Administered by the state governments, the principal function of this office is to implement the Urban Land Ceiling and Regulation Act of 1976¹.
- d. The Urban Development Authorities: Also under the respective state governments, these offices have been established to guide urban development according to master plans and development controls designed by this office.
- e. The Municipal Corporations: The local government institutions, the Corporations in each of the cities maintain land and property information for the purpose of tax administration and issuance of building permissions.

All the properties included in these records are the regularized, legally occupied properties. In the absence of information on unauthorized properties², these records do not give extensive coverage of the properties within the city.

¹ The Urban Land Ceiling and Regulation Act of 1976 (ULCA) imposes a ceiling on the amount of vacant land that can be owned by an individual. An attempt to distribute land more equitably in the urban areas, any individual owning land in excess of the ceiling is expected to sell the land to the government for not more than Rs.10.00 per square meter, significantly less than the market price. The land thus acquired was meant for affordable housing to be built by the government. Of the estimated 166,000 hectares of 'excess' land, the government had acquired only 3,852 hectares and constructed housing on 621 hectares by 1987. The majority of this housing was not aimed at low-income groups. [Source: "Housing -- Enabling Markets to Work", The World Bank, 1993]

² The term "unauthorized properties" refers to two types of properties. The first are the properties in slums and squatter settlements. These are usually constitute structures made of impermanent materials. The second type of properties, generally referred to as unauthorized properties, are usually structures that are illegal in terms of their ownership of the land, i.e. they do not possess title to the land. The superstructures, however, are constructed out of permanent materials such as brick and concrete, and are inseparable in appearance from other properties.

S.3.ii Property Taxation System

The Municipal Corporation in each city is the sole institution responsible for administering the Property Taxation System within the jurisdiction of the Corporation.

S.4 CONSTRAINTS

The tax recovery performance in all the cities show significant revenue losses ranging from 30% to 50% of the annual tax assessed. Critical analysis of the Land Information and Property Taxation has shown a number regulatory, institutional, and technical inefficiencies in the systems leading to such revenue loss. Inefficiencies in both the systems occur, and therefore, must be addressed at four levels:

- (a) Central and/or State Government Policy;
- (b) Local Government Policy;
- (c) Institutional and Administrative Procedures; and
- (d) Technical Practices, Skills and Capacities of the Relevant Institutions.

Following is brief summary of the constraints (Chapter 3) and recommendations presented in detail in Chapter 3 and 4, respectively.

S.4.i Land Information System

Efficient Property Taxation System is contingent on a comprehensive inventory of properties. However a number of constraints hamper the efficient functioning of the Land Information System.

The important regulatory constraints that should be addressed at the government policy levels are: (a) *High cost of registered transfer of titles* -- The Stamp Duty (12% of the cost of transaction of Properties) acts as an important deterrent to official transactions of properties; and (b) *Exclusion of unauthorized properties from the tax base* -- Approximately 30 Acts must be satisfied before a property may be considered authorized. In a system with dis-proportionately large dis-incentives to legal dealings in properties, the number unauthorized properties are quite large in every city. Excluding these from the official inventory ultimately results in revenue loss to the public authorities.

Constraints that exist at the Institutional and Procedural Level are: (a) *Multiplicity of institutions* -- Property owners must visit several institutions at a time for any dealing with respect to their properties; (b) *Lack of institutional coordination*; (c) *Complexity of procedures*; and (d) *Lack of administrative efficiency*. All these issues discourage people from official dealings in property matters which ultimately results in an incomplete inventory of properties. To address the issue revenue loss through under-identification, management of Land and Property Information should be centralized in one institution and this institution made accountable

Inefficiencies that can be addressed through Technical Reform are the Cadastral Surveying and Mapping System, system of maintaining property information. The traditional methods practiced in the cities are largely inappropriate for growing urban centers, and therefore, create a bottleneck in the Land Information System.

S.4.ii Property Taxation System

The Property Tax is calculated on the basis of *Annual Rental Value* of each Property, in all three cities. The tax structure typically consists of other associated taxes, such as Water Tax and Coservancy Tax in Baroda, Education Cess and Conservancy Tax in Rajkot, and Education, Health, Beggary and Library Cess in Mysore. A number of regulatory, institutional, and technical constraints exist at each step of the Taxation System, resulting in revenue loss for the Corporations.

a. *Identification of Properties:* Under-identification is one of the most important causes of revenue loss in the Property Taxation System. With respect to this issue, some of the constraints in the Property Taxation System at the central and local government policy level are similar to those in the Land Information System. These are: (a) *High cost of transaction of properties*, (b) *Exclusion of unauthorized properties from the tax base*; and (c) *Burden of declaration of property for taxation on the owners* -- In the absence of visible benefits to be gained from payment of Property Tax, there is little willingness on the part of property owners to pay taxes. Therefore, placing the burden of declaration on the owners has proved largely ineffective in discovery of properties for taxation.

The inefficiencies that exist at the Institutional Level are: (a) *Complex procedure of obtaining building permission* -- Notification from the Building Permission Division of the Corporation is one of the principal means of discovery of properties. However, a complex set of procedures acts as a deterrent to the property owners from obtaining building permission. Consequently there are a large number of unauthorized properties in each city that are not in the Corporations tax roll; (b) *Administrative inefficiencies* -- Lack of accountability and general environment of administrative laxity, compounded by complex procedures further discourage people from dealing with these institutions; (c) *High unofficial cost of authorized transaction of properties* -- Apart from the high Stamp Duty, systemic corruption and bribery increase the cost of transaction for property owners; and (d) *Extent of decentralized administration* -- Most of the cities are in various stages of decentralizing administration of Property Tax through Municipal Ward Offices located in each subdivision of the cities. This is an important factor in identification of properties and general administration of Property Tax, and should be actively instituted in municipalities of large to medium sized cities.

b. *Valuation and Assessment Techniques:* Specific constraints lead to under-assessment of the potential tax base in each city. The constraints that exist at the central and local government policy level are: (a) *The Rent Control Act* -- Property Tax is assessed on the "official" rental values of properties. The official values are, however, kept artificially low due to the Rent Control Act, while the real market rents of the properties are considerably higher. The legislative objective of the Act should be revisited as it is ineffective in controlling the real market rents,

and results directly in revenue loss for the Corporation; (b) *ARV assessed does not reflect market value* -- Due to policies, such the Rent Control Act, and absence of market oriented valuation practices, the ARV assessed is considerably lower than real market rent. This results in under-assessment of a potentially larger tax base ; and (c) *The practice of not revaluing the old buildings* -- The practice of not revaluing old buildings unless these have undergone visible improvements irrespective of their present market value, further reduces the magnitude of assessed tax.

Constraints at the institutional and technical level are (a) *Absence of specific guidelines for valuation* -- This results in inconsistent, arbitrary valuation dependent principally on subjective judgement of the tax Officers; and (b) *Absence of valuation procedures that reflect real market rent of properties* -- As discussed above, this results in under-assessment of the tax base. It is important that Corporations adopt simple, and consistent guidelines for valuation that reflect real market rental values of properties.

c. Billing There are two issues with respect to the billing process can be addressed through institutional and technical capacity building: (a) *Preparation of bills* -- Traditionally all bills are prepared manually in most local governments. Though progressive local governments, such as Baroda and Rajkot are, however, currently in the process of computerizing the preparation process, many cities like Mysore, continue to prepare the bills manually; and (b) *Distribution system* -- in the absence of a reliable postal system, bills are delivered to each doorstep by peons of the Corporations. Corporation could address the associate time lag and expense by instituting simple reforms such as contracting this process to private couriers, as has been done in Rajkot.

d. Collection Efficiency There are four constraints that add to the inefficiency of the collection function. These exist principally at the institutional level: (a) *Decentralization of the collection function* -- Active decentralization of collection function through Ward Offices of the Corporation distributed across the cities, as is especially apparent in Mysore, add to the efficiency of collection; (b) *Follow up on delinquents* -- Although regulatory guidelines exist for follow-up on delinquent tax payers, these are not implemented rigorously in most cities. In all the cities visited, stricter follow-up on delinquent tax payers is required; (c) *Lawsuits arising from complex valuation and assessment techniques* -- The lack of objective and transparent procedure of assessment leads to a large number of lawsuits against the Corporations. Since the properties do not pay taxes while under litigation, this results in revenue loss for the Corporation. Establishing transparent, simple and consistent set of guidelines should reduce the number of lawsuits and bring properties back on regular tax roll of the Corporations; and (d) *Ineffective linkage of property tax with clearly visible benefits* -- One of the principal causes of tax avoidance. This issue must be addressed through better provision of services, and stricter penalties for avoidance. Such measures would potentially improve the tax payers willingness to pay Property Tax.

e. Tax Rate and Policy Environment The constraints in the tax rate and policy environment are one of the most critical constraints to efficient revenue generation through Property Tax. These must be addressed at the central and local government levels: (a) *The difference between Nominal and Effective Tax Rates* -- Although the Nominal Property Tax rate in the cities often

seem high, the effect of regulations such as the Rent Control Act, make the effective rate of taxation substantially low. The policy reforms recommended above with each step of the administration of the tax, are imperative to achieve a higher effective rate of taxation; and (b) *Politicized process of establishing tax rates* -- Establishing tax rates is the function of the Local Council in each city. Raising tax rates -- a politically unpopular process, is therefore an extremely difficult task for the local governments. It is important that the local political leadership understand the correlation between provision of municipal services and the revenues generated through property taxation.

S.5 RECOMMENDATIONS FOR TRAINING AND TECHNICAL ASSISTANCE

Training and Technical Assistance, when accompanied by complementary reform initiatives on the part of national institutions, is an important instrument of bringing about reform in regulatory, institutional and technical areas. Following are the training and technical initiatives recommended for addressing the constraints as stated above.

S.5.i Reform of Central/State Government Policies

- i. National Seminar on Policies and Practices of Taxation and Local Government Finance. A National Seminar on Policies and Practices of Taxation and Local Government Finance designed to educate political leaders and decision-makers about the need to address the regressive effect of policies identified in this report, would be critical to initiate a policy dialogue about addressing these constraints
- ii. TA to restructure regulatory framework. Subsequently, technical assistance should be provided to revise and restructure the relevant policies, laws, and regulatory framework to remove or reduce the impact of bottlenecks on the Property Taxation System.

S.5.ii. Reform of Local Government Policies

- i. Seminar on Policies and Practices of Property Taxation and Local Action Plans. A city-specific seminar on Policies and Practices of Property Taxation targeted to Develop Local Action Plans and to illustrate: (a) the importance of Property Tax to municipal finance and provision of basic services, (b) the regressive effect of some of the current policies, and (c) the importance of adopting market based policies, would be important in affecting policy reform at the local government level.
- ii. Technical Assistance to implement the "Local Action Plans". Specific technical assistance should be provided, where necessary, to the local government to restructure and adapt old policies and formulate new ones where required.

S.5.iii Institutional and Administrative Reform

- i. Central Land and Property Information System. A Central Land and Property Information System responsible for maintaining legal and fiscal cadastre in each city would address most of the constraints in maintenance of comprehensive inventory of properties. The City Survey Offices in each city is potentially best suited for this function, although substantial institutional and technical capacity-building will be needed to establish to establish a well-functioning system.
- ii. A Seminar on Overview of Property Taxation System. A seminar presenting an overview of the Property Taxation System and its important elements, illustrated through case studies and comparisons with the existing systems in other cities, would be helpful as a first step to initiate institutional reforms
- iii. Seminars and workshops to improve administrative performance and address systemic corruption. Seminars should be held for senior management of institutions involved in Land Information as well as Property Taxation System to address the issues of: (a) administrative inefficiencies and systemic corruption, (b) lack of institutional coordination, and (c) complex institutional procedures. Output from such seminars should include programs of simple reforms that senior managers believe could be implemented.
- iv. Technical Assistance for simplifying procedures and associated training. Technical assistance should be provided to the institutions in simplifying existing procedures. Each institution should also establish regular system of training officers in the modified and new practices and procedures.
- v. Seminar/Study Tours -- Sharing Experiences and Technical Assistance. Experiences of neighboring cities can often be more persuasive than foreign injection of technical assistance. Creating a platform for such exchanges through seminars and workshops would be an useful measure for affecting reform.
- vi. Technical Assistance for Developing Market-Based Valuation Guidelines. Technical assistance should be provided to develop and establish simple, transparent and market oriented guidelines for valuation.
- vii. Technical Assistance in Establishing a Real Estate Market Information System. To establish market-based valuation techniques, the key initiative required would be to establish a system of monitoring real estate markets and maintaining a database on current values and trends. Technical assistance and associated training should be provided to the relevant institution in establishing the Real Estate market Information System.

S.5.iv Technical Reform

- i. Training on improved Cadastral Surveying Techniques. Training should be provided to the Surveyors at the City Survey Office in current mass and individual property survey techniques.
- ii. GIS Mapping and Information System. Intensive training and technical assistance to Technical Officers will be required for establishing a fully working GIS Mapping and Information System.
- iii. Institutionalize Training of Tax Officers in the Corporations in the Market Based System of Valuation. Future trainers as well as Tax Officers should be trained on a regular basis in the new methods of valuation.
- iv. Training to Obtain and Record Real Estate Market Information. Specialized training to conduct surveys of real estate markets, and maintenance of current data should be provided to the institutions, public or private, responsible maintaining Real Estate Market Information.
- v. Training and Technical Assistance for Automation of the Property Taxation System. Some municipalities, such as Baroda, are in the process of computerization of the taxation system. Other municipalities, such as Rajkot, have expressed an interest in computerization of the Property Taxation System. Such Municipalities should be provided training and technical assistance in automation of the Property Taxation System.

S.5.v Demonstration Pilot Project

A demonstration Pilot Project, incorporating all the reforms in one or two cities, would be an useful instrument in demonstrating the potential gains from an efficiently functioning Property Taxation System and Land and Property Information System.

GLOSSARY OF TERMS

| | |
|--------------------------|--|
| ARV | Annual Rental Value |
| BMC | Baroda Municipal Corporation in Baroda |
| BPMC Act | Bombay Provincial Municipal Corporations Act of 1949 |
| FY | Financial Year |
| GOI | Government of India |
| <i>Hakkami</i> | The Land Revenue Code Notice #135/D -- known as ' <i>Hakkami</i> ', is sent to known relatives, upon the death of the owner, as part of the procedure of transfer of ownership to the heirs, from the City Survey Office, in Baroda. A thirty days time period is allowed for any objections to be raised by concerned parties against the transfer of ownership to the heirs. |
| Income-Rent Certificate: | An Income Rent Certificate is the certificate issued by the Sub-registrar's office which states the annual and monthly rent of a property. |
| <i>Katha</i> | <i>Katha</i> is the record of property ownership the Tax Assessment Register at the Mysore Municipal Corporation. Unlike Baroda and Rajkot, this record is extremely important as proof of ownership in Mysore. |

| | |
|----------------------------------|---|
| <i>Kaulatnama</i> | The certificate issued by the Urban Land Ceiling Office is known as <i>Kaulatnama</i> in Rajkot. |
| <i>Kutchra</i> | Buildings made out of impermanent materials. |
| MCC | Mysore City Corporation in Mysore |
| <i>Mohallas</i> | Cities are often divided into smaller wards for administrative purposes. In Mysore these wards are known as <i>mohallas</i> . |
| MUDA | Mysore Urban Development Authority in Mysore |
| <i>Pucca</i> | Buildings made out of permanent materials, such as brick and concrete. |
| RMC | Rajkot Municipal Corporation in Rajkot |
| RHUDO | Regional Housing and Urban Development Office |
| RUDA | Rajkot Urban Development Authority in Rajkot |
| <i>Sale Deed and Stamp Duty:</i> | <i>The Sale Deed</i> is an agreement of transaction written and notarized on Government of India stamp paper, purchased at for 12% of the value of the transaction. Of the 12%, 10% is levied by the central government and 2% Registration Fee is diverted to the local government as the municipal surcharge. The entire amount is referred to as <i>Stamp Duty</i> . |
| <i>Sanad and Satbar Utara:</i> | The <i>Sanad</i> and the <i>Satbar-Utara</i> are the traditional title deeds of land in rural areas. As rural land is converted to urban use these deeds are replaced by the Property Cards, Sale Deeds, or Income Rent Certificates. |
| <i>Talathis</i> | The survey officers at the City Survey Office in Baroda are known as <i>talathis</i> . |
| <i>Taluka</i> | A group of villages form a <i>Taluka</i> , a few of which, in turn, form a District |
| <i>Tikka</i> | <i>Tikka</i> is a term used by surveyors in Baroda for a particular type of survey map. Each quarter of the city is subdivided into approximately thirty <i>tikkas</i> . A <i>tikka</i> consists of up to a hundred plots. There is one map for every <i>Tikka</i> . |
| USAID | United States Agency for International Development |

Varsai

The process of registering transfer of ownership, after the death of the owner, at the City Survey Office in Baroda.

VUDA

Vadodara Urban Development Authority in Baroda



CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Adequate provision of urban infrastructure and social services is crucial to the continued productivity of urban economies. In most developing nations, local governments are responsible for provision and administration of these services. Because of growing concentration of population in urban areas and limited public resources, provision of basic services has become an increasingly serious concern for local governments. In India, shrinking local government resources and increasing costs, compounded by an inadequate revenue stream, seriously hamper the ability of local municipalities to provide basic infrastructure in the urban areas.

Principal sources of finance for local governments in India are transfers from central and state governments, and local taxes such as the Octroi and Property Tax. With the continuing liberalization of the Indian economy, the governmental structure is also being decentralized. Consequently, local governments are gaining more decision making authority over their jurisdictions. This has, however, also been coupled with diminishing intergovernmental transfers to local governments. Local governments are now faced with the prospect of provision of infrastructure and basic services and with managing their financial flows principally from revenue generated from local taxes.

Among the local taxes, the Octroi and the Property Tax are the principal revenue generating taxes for local governments in India. The Property Tax alone contributes approximately 20% or a fifth of the local revenue, while the Octroi contributes the largest share, ranging from 20% to 50% of revenue collected by the local municipalities in India (See Section 2.5.i). The Property Tax is ubiquitous: virtually all market economies in developing countries levy Property Tax within local government jurisdictions. Though the economic case for Property Tax is strong, in most cases it generates little revenue, often due to poor administration or inadequate tax policies. Due to the inter-relationship of Property Tax and provision of services

and infrastructure, efficient functioning of the Property Taxation System is critical to the capacity of local governments in provision of urban infrastructure and serviced land.

The United States Agency for International Development (USAID) has expressed a keen interest in the development of urban land in developing nations. In August 1990, USAID organized a Regional Policy Seminar on "Urban Land Issues in Asia" in Thailand. Following this seminar, USAID/India along with the Ministry of Urban Development of the Government of India (GOI), and the National Housing Bank, initiated four seminars, specific to urban land conditions in India. USAID/India has proposed to provide technical and financial support and to undertake studies on the feasibility of developing a commercially viable system that would enable state/local governments in India to finance infrastructure projects.

To support this initiative, USAID/India has initiated this study on Urban Property Taxation and Land Information Systems in Urban India. The Regional Housing and Urban Development Office (RHUDO) of USAID/India selected the cities of Baroda and Rajkot in Gujarat, and Mysore in Karnataka as the focus for this study (Figure 1.1.i). The RHUDO chose these cities because of their relatively progressive local governments and RHUDO's experience with the local governments with respect to previous housing and urban development studies. The objectives of this study are: (1) researching the status of Property Taxation and Land Information Systems, (2) identifying the causes of revenue leakages in the Property Taxation System, (3) analyzing the regulatory and institutional constraints to efficient functioning of the Systems, and (4) recommending means of addressing these bottlenecks through training and technical assistance. Because the Property Taxation System depends on a comprehensive inventory of properties, it has been necessary to study and analyze the policies and procedures of the Land Information System relating to the revenue generated through Property Tax.

1.2 PURPOSE AND OBJECTIVE OF THE STUDY

The purpose of the proposed study is to analyze:

- a. The principal factors -- policy, regulatory, institutional and administrative -- responsible for revenue leakages under Property Taxation System;
- b. The constraints and weaknesses in the Land Information/Registration Systems vis-a-vis their ability to deal efficiently with transfer of property, maintain current and comprehensive records on titles and ownership, and interface with the Property Taxation System;
- c. To provide recommendations for improving local government revenue generation by reforming the Property Taxation and Land Information System; and
- d. To suggest means of improvement through training and technical assistance.



1.1.i Cities of Baroda and Rajkot in Gujarat and Mysore in Karnataka: India

The objective of the proposed research is to:

- a. Analyze the current status of Urban Property Taxation System and identify the constraints and weaknesses leading to revenue loss;
- b. Analyze the revenues generated through Property Tax within the revenue stream of the three local governments for at least the last three years, and estimate the revenue leakage according to available sources;
- c. Analyze the current status of the Land Information Systems of local governments in three medium to small sized cities in India, in order to identify the constraints and weaknesses of the systems as it effects revenue generation through the Property Tax;
- d. Based on the analyses of both the systems, identify the possible reasons for shortfall, if any, in the total revenue received by the municipalities;
- e. Recommend means of addressing inefficiencies in the Land Information System vis-a-vis their impact on revenue generated by the Property Taxation System; and
- f. Recommend a training and technical assistance to improve the Property Taxation and Land Information Systems.

1.3 RESEARCH DESIGN AND METHODOLOGY

This study reviews the existing systems of Property Taxation and Land Information in the cities of Baroda and Rajkot in Gujarat, and Mysore in Karnataka. The study was undertaken through field visits and detailed research and analysis of available documents in the cities. The Workplan (Annex I) outlines the schedule of field visits and stages of the study, as approved by RHUDO - USAID/India.

The study has been undertaken in three parts:

- i. Data collection,
- ii. Data analysis, and
- iii. Implications and recommendations.

1.3.i Data Collection

Review of the Land Information System in each municipality encompasses:

- a. Specific functions of institutions involved in the Land Information System. In the absence of a comprehensive inventory of properties at any one institution, it has been necessary to look at the datasets available at each institution involved in different aspects of land and property management, even though maintenance of Land Information System might not be their principal responsibility;

- b. The existing cadastre system and the mapping system which might provide the basis for a comprehensive land and property information system;
- c. The system of maintaining land records -- which provide data on titles and property ownership; and
- d. The interface between the Property Taxation and Land Information Systems.

Sources of data have included:

- . Documents and records available at the municipalities; and
- . Interviews with officials, real estate agents, and property dealers.

The review of Property Taxation in each municipality encompasses:

- a. Analysis of the Property Tax within the total revenue stream of the municipality for the last three years;
- b. Review the administration of the Property Tax with respect to the institutions involved and policies and practices adopted in each of the following steps:
 - 1. Identification: The system of ensuring that all properties are included on the tax roll, such as self-declaration or government inventory, and that changes in the tax base are discovered and incorporated as they occur.
 - 2. Valuation: The system by which the value of the property is assessed, such as systems based on Annual Rental Value (ARV), Capital/Market Value, or Construction Cost Data.
 - 3. Assessment and rate setting: The method of deriving the "Ratable Value" of properties and subsequent proportion of the Ratable Value that may be taxed annually as Property Tax;
 - 4. Billing: Procedure of notifying taxpayers of their liability.
 - 5. Collection: Regular collection of taxes due from taxpayers, including collection of late payments, monitoring delinquent accounts, and enforcing payments.
- c. Review of policy guidelines adopted by the local government in assessment and levying of Property Tax such as (a) definition of taxable properties and exemptions; (b) sectoral differentiation on the basis of land use, (c) system of valuation and revaluation of property on the tax roll, and (d) the nominal and the effective rate of taxation.

Sources of data have included:

- . Documents and records available at the municipality;
- . Interviews with relevant officials at the municipality such as the Municipal Commissioner, the Chief Accountant in charge of the tax and revenue departments and the City Engineer; and
- . Interviews with real estate agents and property dealers.

1.3.ii Data Analysis

This data collected during field visits has been analyzed to identify:

- a. The constraints and weaknesses of the Land Information system, i.e. (a) how comprehensive is the cadastre system, (b) how complex and/or comprehensive and how current are the records on titles and ownership, (c) the procedural ease of transfer of titles, and (d) the interface between the cadastral mapping system and the tax mapping system.
- b. The key stages of administration of the tax where revenue loss is occurring, i.e. (a) what proportion of the properties are missing from the rolls, (b) whether valuations are accurate and current, (c) nominal tax rate and exemption policies, and (d) proportion of assessed revenue that is collected.
- c. The administrative causes of the revenue leakages: (a) how are properties discovered and new valuations made, (b) the system of adjusting rates, and (c) billing and collection system.
- d. The regulatory and institutional environment in which these systems are administered: (a) characteristics of the policy setting environment -- what are the revenue sources and which levels of government set policies, (b) characteristics of the market -- prevailing system of tenure and availability of market data.

1.3.iii Implications and Recommendations

Based on this analysis, this part identifies issues that need to be addressed in order to improve the efficiency of the Urban Property Taxation System and Land Information System as it affects revenue generation through Property Tax. The final chapter provides recommendations for addressing these constraints and suggests a program of training and technical assistance.

1.4 STRUCTURE OF THE REPORT

The report consists of four chapters, including this one, and detailed Annexes. Due to the similarity of the policies and practices in the three cities, the main body of the report presents a summary analysis and recommendations for Land Information and Urban Property Taxation System, as observed across the three cities. Detailed studies of the status and constraints of the

systems as practiced in the individual cities -- Baroda, Rajkot and Mysore -- are presented in Annex II, III, and IV respectively.

Chapter 1 has presented the background to the study, its purpose and objectives, the research design and methodology adopted, and the structure of the study.

Chapter 2 presents a summary of the Land Information and Property Taxation System as observed in the three cities. Land management, registration and information systems are administered principally by central and state government bodies, under central government regulatory and policy guidelines. As a result, the functioning of the land management system and related institutions are similar in all the three cities. The Property Taxation System is administered by the local government, within policy and regulatory guidelines established by the central government. Therefore, the policies and practices adopted by the local governments are also largely similar. Where the administrative environment differ from one local government to the next, it has been mentioned individually in a separate box in the relevant sections. The first section of the chapter gives a brief overview of the cities. The following three sections comprise detailed overviews of the Land Information System and the Property Taxation system, respectively, and interface between the two systems.

Chapter 3 presents an analysis of regulatory and institutional bottlenecks that need to be addressed for efficient and coordinated functioning of the two systems, based on the above study of policies and procedures of administration of the two systems in the three cities. A large number of these bottlenecks are common to all the three cities. The issues unique to each city have been addressed individually in each section.

Chapter 4 provides general recommendations for improving the efficiency of the Urban Property Taxation and Land Information Systems for improved revenue generation through Property Tax. The concluding section of the chapter presents recommendations for addressing the bottlenecks through Training and Technical Assistance.

■

CHAPTER 2

URBAN LAND INFORMATION AND PROPERTY TAXATION SYSTEM: A STUDY OF THREE CITIES

2.1 BACKGROUND

Property Tax typically constitutes approximately one fifth of the resource base of local governments in urban India. An efficiently functioning Property Taxation System, therefore, is critical for local government revenue generation and provision of basic services. However, the Property Taxation System, as it functions now, suffers from significant revenue leakages because of a number of policy, regulatory, institutional, and administrative inefficiencies -- even in the more progressive cities in India. Revenue generated through property tax is also directly related to the size of its tax base. Therefore, efficient functioning of the property taxation system is directly contingent upon a comprehensive and integrated Land and Property Information System. Apart from the constraints created by the regulatory environment for land and property, there is a weak interface between the two systems, making the functioning of the property taxation system that much more inefficient. The Land Information System itself suffers from a number of systemic bottlenecks. The consequently smaller tax base is one of the most critical sources of revenue loss in terms of property tax.

In order to understand and address the constraints in local government revenue generation through property taxation, an in-depth review and analysis of the status of property taxation system and land information system was undertaken in three medium sized cities in India. The three cities identified by the RHUDO of USAID/India are Baroda and Rajkot in Gujarat, and Mysore in Karnataka. These cities were selected on the basis of their comparatively progressive local governments and RHUDO's previous experience with the local governments with other studies related housing and urban development.

Land management, registration and information system is administered principally by central and state government bodies, under central government regulatory and policy guidelines. As a result the functioning of the land management system and related institutions are similar in

all the three cities. The Property Taxation System is administered by the local government within policy and regulatory guidelines established by the central government. However, the administrative environment often differs from one local government to the next within the largely similar regulatory framework. This chapter presents the general description of the systems common to three cities and the major notable differences among them. The detailed data and analysis of issues specific to each city is presented separately in the three Annexes specific to the three cities (Annexes II, III, and IV).

2.2 THE CITIES - A BRIEF INTRODUCTION

Baroda Baroda or Vadodara, as it is known now, is situated in the State of Gujarat (Figure 2.2.i and ii). Until 1955, Gujarat was a part of the larger Maharashtra region. Subsequently it gained independent status. However, the Bombay Provincial Municipal Corporation Act, 1949, continues to be the governing act for the local governments in Gujarat. The City of Baroda encompasses 108.22 square kilometers. The officially estimated population is 1.168 million people, with 0.22 million households. Like other urban agglomerations in India, Baroda has its share of unauthorized and squatter settlements, pushing the total population well over such official estimates.

Rajkot Rajkot is a medium sized town in the State of Gujarat (Figure 2.2.i and ii). It is the fourth largest urban agglomeration in the state. Due to its strategic location in the center of Saurashtra region, it is one of the most important trading and industrial centers of the region. The Rajkot Municipal Corporation was established in 1973. As in Baroda, the Bombay Provincial Municipal Corporations Act, 1949, is the governing act for the Corporation. It has a population of 0.45 million, as per the Corporation records, with a total of 0.10 million households.

Mysore Mysore is situated in the State of Karnataka in southern India (Figure 2.2.iii and iv). Known for its historical palaces, temples, and gardens, with a cool temperate climate all year round, Mysore is one of the important tourist destinations in India. As per the 1991 census, the estimated population of the Mysore city is 0.48 million people. The total population in the Mysore City Agglomeration including Mysore City is over 0.65 million. As in other cities in India, due to the presence of unauthorized settlements, the official figures underestimate the total population to a large extent.

2.3 THE LAND INFORMATION SYSTEM

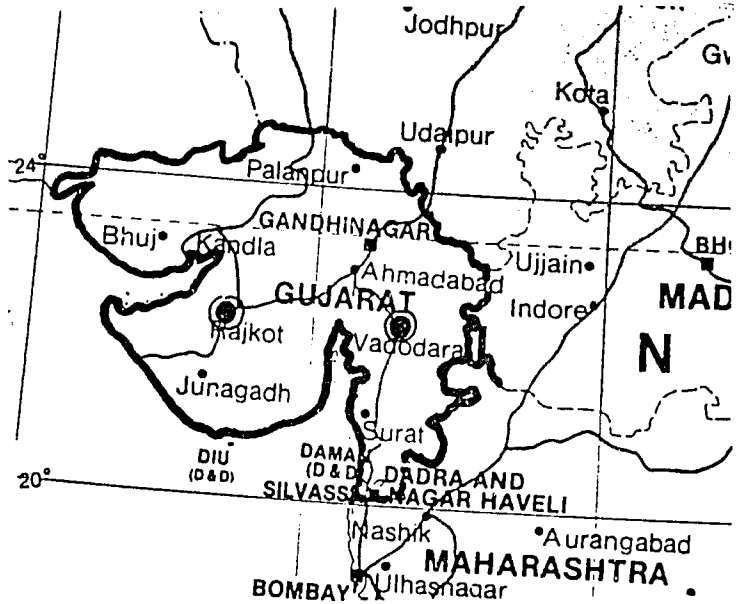
2.3.i Institutions:

The Land Registration and Information System in all the three cities is typically administered by Offices under the jurisdiction of the State Governments. Given the centralized system of Government administration, the regulations that dictate the structure, procedures and

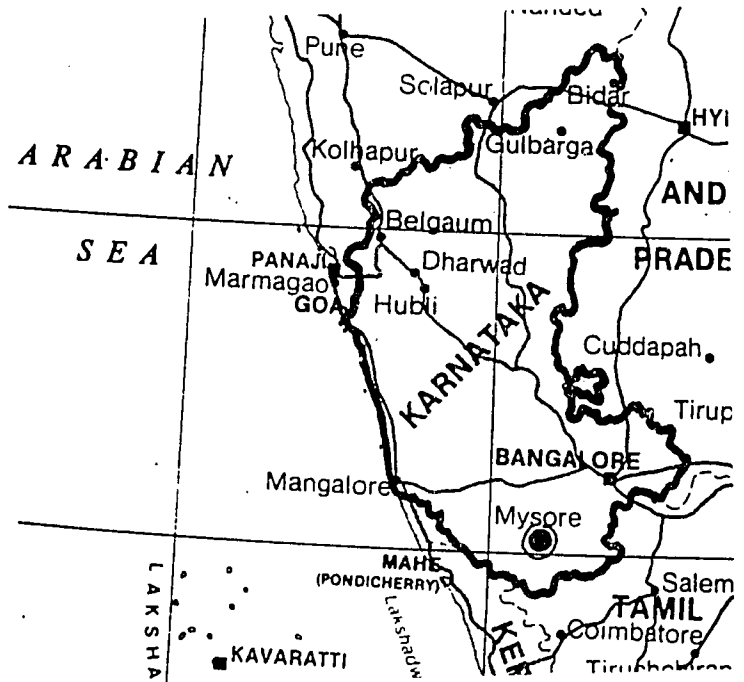
2.2.i State of Gujarat



2.2.ii Baroda and Rajkot in Gujarat



2.2.iii State of Karnataka



2.2.iv City of Mysore in Karnataka

practices of these offices originate at the central government level and are largely similar in all the three cities, even though Mysore is situated in a different state.

A range of state government institutions maintain land and property information, each for distinctly different purposes from the other. Because there is no comprehensive inventory of all properties at any of these institutions, it has been necessary to study all the information sources and institutions involved with land at the city level. Some of these institutions deal with property registration, while others are involved in land development and planning, and also maintenance of an inventory of registered properties. Although the inventory of properties on which information is maintained in each of these institutions is largely similar, the inventories are created independently with almost no coordination or exchange of information among institutions¹. The Municipal Corporations, which are the only relevant local government institutions, maintain property information for the purposes of tax administration.

The institutions which maintain land and property information in each of the three cities are as follows:

- a. The Sub-registrar's Office - a division of the District Collectorate, under the jurisdiction of the respective state governments;
- b. The City Survey Office - also a division under the District Collectorate, a state government body;
- c. The Urban Land Ceiling Division - administered by the state governments;
- d. The Urban Development Authority - also under the respective state governments; and
- e. The Municipal Corporations - the local governments.

a. The Sub-registrar's Office : The Sub-registrar's Office is responsible for registration and records of all properties that have undergone a transfer of ownership either by sub-division, inheritance or by sale of the property. This office does not maintain any record of properties that have *never* undergone any such transaction or subdivision. Their records, therefore, do not present either a complete or comprehensive list of all properties in the city. A registered *Sale Deed* or *Registration Certificate* from this office is one of the most important document for proof of ownership of a property.

b. The City Survey Office : Division of the District Collectorate, the City Survey Office is entrusted with the function of maintaining (a) updated, surveyed maps of urban areas under its

¹ The only exception to this rule was observed in Rajkot, Gujarat (See Annex III) where the Sub-registrar's Office periodically sent property information to the City Survey Office.

jurisdiction, and (b) maintaining "*Property Cards*"² of each piece of property in the city. It maintains information only on the registered, legally authorized properties, and not on unauthorized plots or squatter settlements. The City Survey Office is typically staffed with a large number of surveyors responsible for surveying designated parts of the city and maintaining the records of properties in that part of the city. The cities are subdivided into minor subdivisions for this purpose. For instance Baroda is divided into ten wards, Rajkot into nineteen wards, and Mysore into eleven *mohallas*³.

c. Urban Land Ceiling Office: The principal function of this office is to implement the Urban Land Ceiling and Regulation Act of 1976⁴. The land ceiling specified for medium sized cities under the Act is 1500 square meters for an individual property owner. The office however may make exemptions and variations as per its discretion within the statutory framework. The Urban Land Ceiling Certificate is a necessary document for obtaining building permission from the corporation and registering transfer of ownership at the Sub-registrars Office and the City Survey Office.

d. The Urban Development Authority: Established under the jurisdiction of the state governments the Urban Development Authority is a comparatively new organization. The Urban Development Authorities in the three cities are known as -- Vadodara Urban Development Authority (VUDA) in Baroda, Rajkot Urban Development Authority (RUDA) in Rajkot, and Mysore Urban Development Authority (MUDA) in Mysore. These offices have been established to guide urban development and growth as per master plans designed on the basis of projected growth patterns for the cities. Any development within the city must adhere to the development controls laid down by the authorities. This office typically does not maintain any plot-by-plot information, although it does carry out extensive land use surveys and therefore maintain maps which document the land use pattern of the cities.

e. The Municipal Corporations: The Corporations in each of the cities maintain the land and property information for the purpose of tax administration and issuance of building permissions. The properties included in these records are the regularized, legally occupied

² Property Cards are documents equivalent to title deeds. These, however, vary in significance as proof of ownership from city to city. For instance in Baroda the Property Card is an important proof of ownership, whereas in Mysore it is one of the least important documents.

³ Cities are often divided into smaller wards for administrative purposes. In Mysore these wards are known as *mohallas*.

⁴ The Urban Land Ceiling and Regulation Act of 1976 (ULCA) imposes a ceiling on the amount of vacant land that can be owned by an individual. An attempt to distribute land more equitably in the urban areas, any individual owning land in excess of the ceiling is expected to sell the land to the government for not more than Rs.10.00 per square meter, significantly less than the market price. The land thus acquired was meant for affordable housing to be built by the government. Of the estimated 166,000 hectares of 'excess' land, the government had acquired only 3,852 hectares and constructed housing on 621 hectares by 1987. The majority of this housing was not aimed at low-income groups. [Source: "Housing -- Enabling Markets to Work", The World Bank, 1993]

properties. In the absence of information on unauthorized construction, these records do not give extensive coverage of the properties within the city. A copy of the record of a property from the tax assessment registers of the Corporations, is an important document for establishing proof of ownership. The Corporations in the three cities are known as Baroda Municipal Corporation (BMC) in Baroda, Rajkot Municipal Corporation (RMC) in Rajkot, and Mysore City Corporation (MCC) in Mysore.

2.3.ii Basic Maps

Graphic information, in the form of maps, is prepared and maintained at only two of the institutions in the three cities:

- a. Urban Development Authorities, and
 - b. City Survey Offices.
- a. Urban Development Authorities: The maps at Urban Development Authorities depict broad land use areas within the cities. These maps do not show detailed property information, and are also not updated regularly. The maps at MUDA in Mysore were prepared on the basis of eighty year old maps and a basic survey carried out in 1976. The basic land use map at RUDA was prepared in 1983 after a quick survey of the city.
- b. The City Survey Offices: More detailed plot by plot information are recorded in the maps at the City Survey Offices. This office is responsible for maintaining cadastral and revenue maps in each city. The cities are divided into smaller subdivisions such as the Wards in Baroda and Rajkot and *mohallas* (wards) in Mysore. These are further subdivided into Plane Table Sheet Areas for surveying purposes. The Plane Table Survey Method is the principal survey technique adopted in all the cities. In Mysore, for example, the maps cover an area equivalent to 25 inches x 37 inches at the scale of 1:500. There are 99 such maps in the Fort *mohalla* itself (See Figures 2.3. vi, and vii).

The City Survey Office employs a large number of surveyors responsible for surveying specific subdivision within the city. The hierarchy of surveyors are largely similar in all the three cities. In Rajkot, for instance, the city is divided into three subdivisions, under the supervision of three Superintendent Officers. These subdivisions follow the demarcation boundaries of the wards with six to seven wards in each subdivision (See Figures 2.3.i, ii, iii and iv). Each Superintendent, in turn, employs at an average eleven Maintenance Surveyors. Each of the Maintenance Surveyors are responsible for surveying and maintaining the records of approximately 3500 properties. They are also, as a matter of routine, expected to survey approximately ten properties a day.

The basic maps are, however, dated and largely incomplete. The basic maps available in Baroda and Rajkot date back to around 1955, when Gujarat became an independent state. These maps have only been updated on a plot-by-plot basis and are to be found in a torn and dilapidated state. These do not incorporate, in any noticeably significant way, the growth of the cities since 1955. The maps at the Mysore office are incomplete since the survey of the city began in 1978 and the office was suspended after 1985 (See Figures v, vi, and vii).

In sum, these maps remain largely incomplete and out of date due to the following reasons: (a) the City Survey Office only surveys legally occupied properties; (b) there typically exists a lax environment in these offices where the surveyors only undertake the minimum tasks -- which are obviously inadequate to keep all the information updated. Also, the information produced by this office is not used by any other organization or purpose, reducing the accountability of the Survey Offices; (c) the manual system of surveying is an impediment for growing medium sized cities such as these, even with the large number of surveyors employed by these offices; and (d) the surveyors are expected to survey old and new property on a regular basis, making the availability of updated and accurate information on even the authorized properties almost impossible.

2.3.iii System of Maintaining Land Records

Records on land and property information are primarily maintained by three institutions in all the three cities⁵:

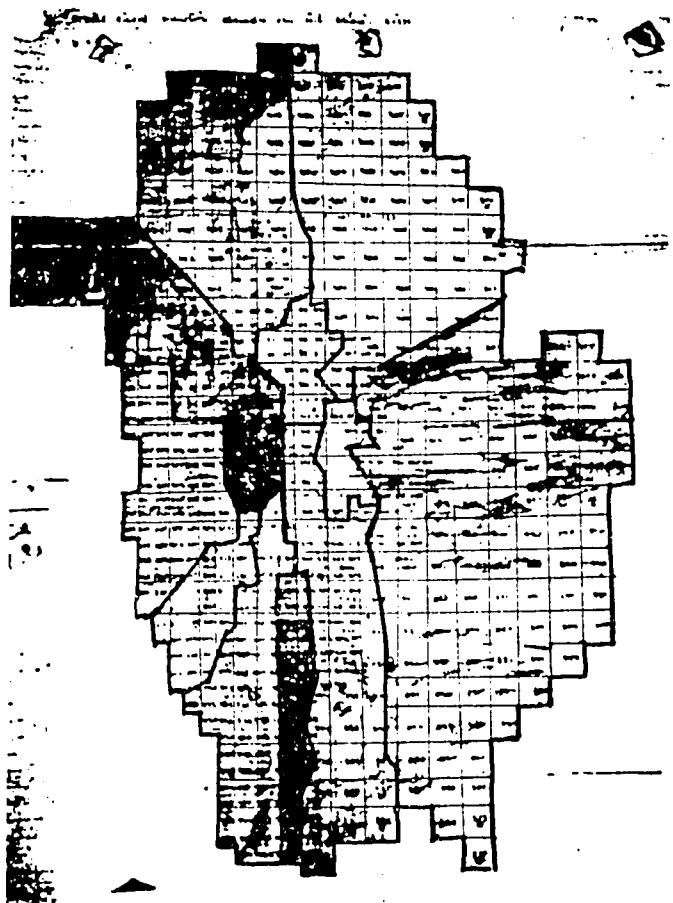
- a. The Sub-registrar's Offices - maintain the "Sale Deed", Registration Index Number, and the Collector's order for land converted from agricultural to non-agricultural use;
- b. The City Survey Offices - maintain the "Property Card";
- c. The Municipal Corporations - maintain records of property ownership in tax assessment books.

The Sale Deed issued by the Sub-registrar's Office, when available, is the most important title to property. The importance of other documents as proof of property ownership vary from city to city. The Property Card, for instance, is important in Baroda, but is considered only a supportive document in Mysore.

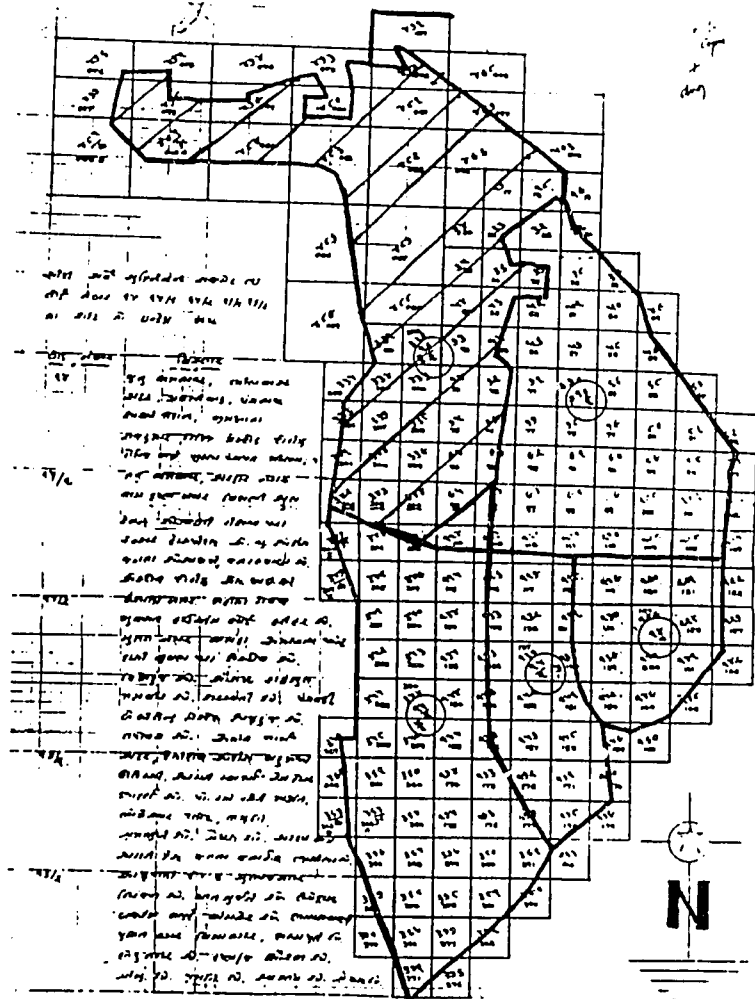
a. Sub-registrar's Office: All the properties that undergo a change in status of ownership through sale, inheritance or subdivision must be registered with the Sub-registrar's Office. A *Sale Deed* is issued by this office in the event of sale of a property. The Sale Deed is an agreement of transaction written and notarized on Government of India stamp paper, purchased at for 12% of the value of the transaction. Of the 12%, 10% is levied by the central government and 2% of the Registration Fee is diverted to the local government as the municipal surcharge. The entire amount is referred to as *Stamp Duty*. This deed must bear all the particulars of the property as well as signatures of two witnesses and thumb prints of the seller and the purchaser. Licensed deed writers, located in the shaded courts outside the office, prepare this deed for a

⁵ In Mysore MUDA (Mysore Land Development Authority) also issue Allotment Certificates for the land developed and allotted by the authority (Refer Annex IV).

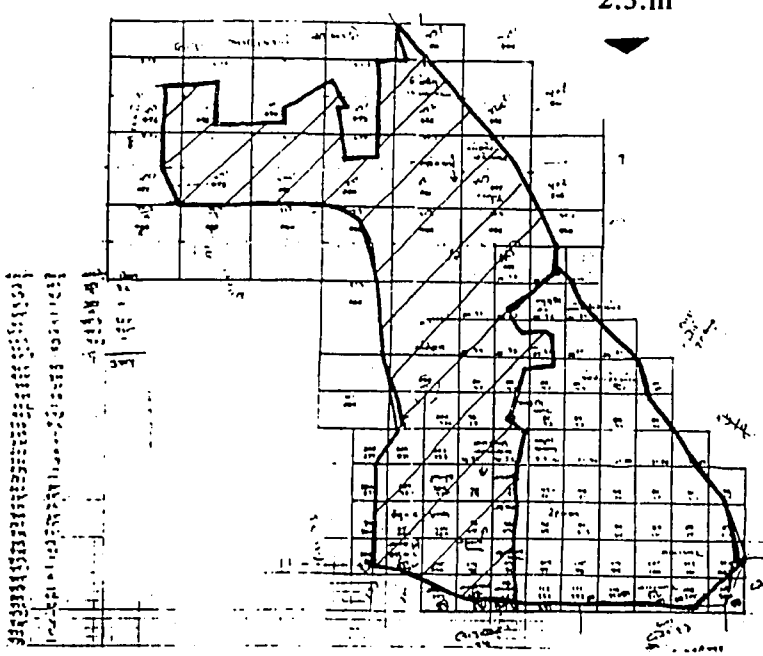
2.3.ii ▶



2.3.i



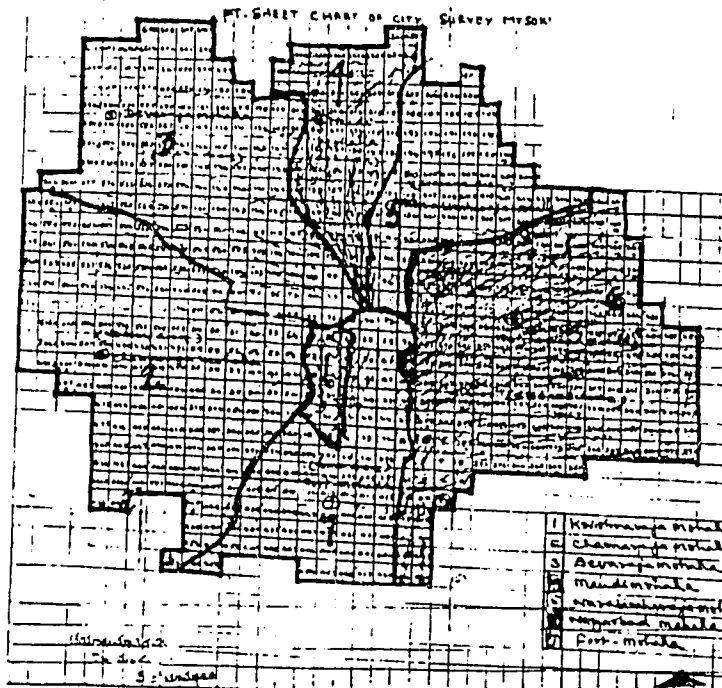
2.3.iii



2.3.iv ▶



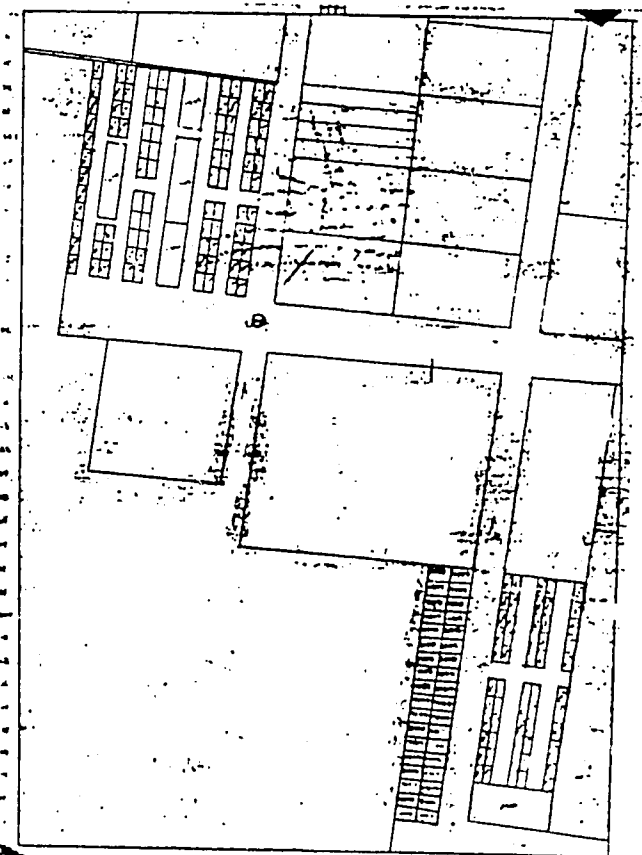
Maps are not to scale



2.3.v



2.3.vi



2.3.vii

- 2.3.i City Survey Map divided into wards: Rajkot
- 2.3.ii Map showing five wards under one Superintendent: Rajkot
- 2.3.iii Ward map divided into 'Plane Table Sheet' areas: Rajkot
- 2.3.iv Subdivision updated in an original Plane Table Sheet survey map: Rajkot
- 2.3.v City Survey Map showing division of wards: Mysore
- 2.3.vi Local Area Map-Fort Mohalla: Mysore
- 2.3.vii One Plane Table Sheet map: Mysore

Maps are not to scale

charge (Figure 2.3.viii). An *Income-Rent Certificate*⁶ is issued for registered properties in some cities such as Mysore. The office also maintains the traditional title deeds such as the *Sanad* and the *Satbar Utara*⁷ in Baroda and Rajkot. In the absence of any document, the index number of the property from the records of the office counts as an important proof of ownership.



2.3.viii Licensed Deed Writers prepare *Sale Deeds* for a charge: Mysore

The system of maintaining the records is complex. In Baroda and Rajkot, the Anderson Manual -- "A Manual of Revenue Accounts," first published in 1870 -- lays down in painstaking and exhaustive detail the guidelines, forms and formats for maintaining land records in rural and urban areas in Gujarat (Annex III).

⁶ An Income Rent Certificate is the certificate issued by the Sub-registrar's Office which states the annual and monthly rent of the property.

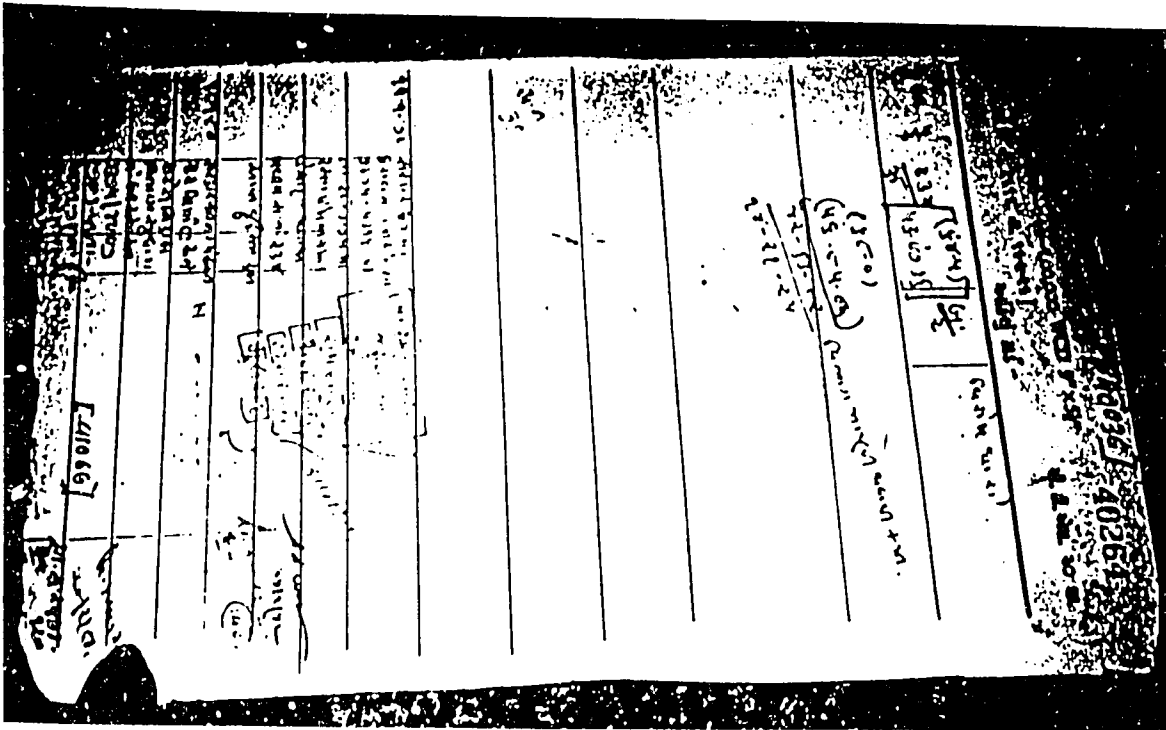
⁷ The *Sanad* and the *Satbar-Utara* are the traditional title deeds of land in rural areas. As the rural land is converted to urban use these deeds are replaced by the Property Cards, Sale Deeds, or Income Rent Certificates.

Only the records of legally authorized properties are maintained at this office. Very old properties and estates which have not undergone any transaction or subdivision are often not found in the records of this office. The burden of registering change in the status of ownership lies with the individual property owners. The very high Stamp Duty acts as a significant deterrent to legal sale of properties, keeping substantial number of transactions from ever entering the records of this office. Consequently these records do not present a comprehensive list of all properties within the city.

b. The City Survey Office: The *Property Card* is maintained at the City Survey Office. The property card, one for each property registered, contains information such as the ward number, the city survey number assigned by the office, the address, name of the first owner, and type of tenure. It also records the name of subsequent owners and date of transfer of ownership. In case of joint-ownership, all the names are recorded on the card. In case of division of the property, new property cards are created for all but one owner, who retains the original card.



2.3.ix Property Cards filed and stored at the City Survey Office: Baroda



2.3.x A typical Property Card in Baroda

Simultaneously, files on each property are maintained with all copies of all relevant documents such as the death certificate of the previous owners, the *sanad*, affidavits of gift of the plot (where applicable), photocopy of the sale deed, and land registration certificate from the Sub-registrar's Office, etc. The cards are organized and stored by ward numbers and plane table sheet numbers in which this property appears, and are easily accessible.

The Maintenance Officers maintain the files and property cards of properties in their area of jurisdiction. In Baroda, for instance, each officer is responsible for maintaining records for approximately 5000 properties. Each property card is hand written. This system though labor intensive, is fairly well organized in Baroda and Rajkot. The City Survey Office in Mysore is comparatively new, and therefore the survey of the city and the property cards are yet incomplete.

c. The Municipal Corporation: The record of property ownership at the Municipal Corporations mainly consist of the entry into the Tax Assessment Register. Known as *Katha* in Mysore, this record is extremely important as proof of ownership. In Baroda and Rajkot these are important only as supportive documents in the event of litigation. Typically the assessment registers record only the legally occupied properties. In Rajkot, however, an attempt is being made to include the unauthorized squatter settlements in the tax rolls.

2.3.iv System of Property Registration

The ownership of a parcel of land is changed under any of the following four conditions:

- a. Death of present owner,
- b. Division of the property,
- c. Sale of land, and
- d. Government acquisition of private property.

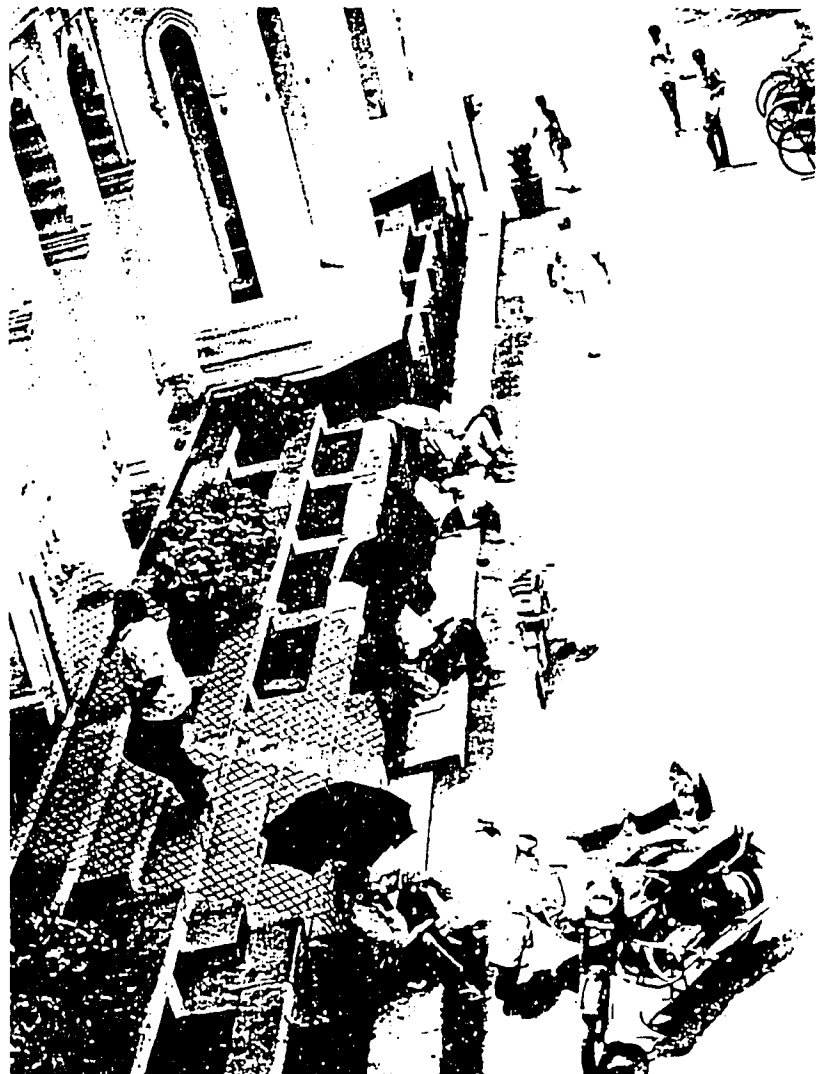
The institution responsible for registration of properties is the Sub-registrar's Office. However, transfer of ownership must be registered at a few other institutions, as well by the property owners, whenever ownership status changes. These are:

- a. The Sub-registrar's Office,
- b. The City Survey Office, and
- c. The Municipal Corporation.

The responsibility of declaring transfer of ownership rests with the previous owners. In case of any change in ownership status the property owner must apply to all of these organizations separately. Only in the case of government acquisition, are changes made in the property cards of the relevant owners directly. There is no exchange of information between the various organizations. Rajkot was the only city visited, out of the three, where a certain degree of institutional coordination was observed. Every month a list of the properties registered in the

2.3.xi

Informal entrepreneurs sit outside the Corporation to help citizens wade through the complex maze of official procedures and forms



Sub-registrar's Office is sent to the City Survey Office. Even if the owner themselves don't approach the City Survey Office, after comparison and verification with their own records, changes are made in the property card and in relevant files. The penalty of not declaring the change in ownership is minimal, if any.

The procedures for registration are similar in all the three cities. Table 2.3.i briefly illustrates the complexity of the process. Detailed procedures in each city and institution are described in Annexes II, III, and IV.

Table 2.3.i Procedure of Property Registration

The procedure for property registration is extremely complex. A property owner must apply for and collect numerous documents and permits from various organizations. The number of documents required to prepare an application and the process of obtaining these documents from the various institutions in itself is a difficult task. Typically the list of documents required are as follows:

- a. Sale Agreement, in case of sale of property. This deed prepared on Government of India stamp paper of the value of 12% of the amount of transaction.
- b. Other proof of ownership such as the *sanad*, in Baroda and Rajkot, and the Collector's Order in case of change of use of land from agricultural to non-agricultural;
- c. Documents stating location and area of the plot, and dimension and areas in case of subdivisions;
- d. 'Tax Paid' certificate from the Corporation;
- e. Certificate from the Urban Land Ceiling Department;
- f. Two affidavits as proof of identification of the concerned parties; and
- g. Any other document as required by the office.

Subsequently the documents are verified by field visits. The penalty for under-valuation of property or mis-statement of facts is Rs.250.00. After verification, either hand written copies are made of the Sale Deed (in Mysore), or the Deed is sent for photographing to Ahmedabad (in Rajkot). The entire process is time consuming and takes between three months to a year. It requires an applicant to make a number of visits to various offices. It is also has a fairly high official cost such as the Stamp Duty along with non-institutional "side-payments" that increase the cost of registration.

The procedures are similar at the City Survey Office and the Corporations, if not more complex. This entire process has an elaborate system of files, records and forms to filled out by the office and the applicant at each stage -- often too complicated for most of the citizens. Just outside the office rooms in the shaded verandas sit a few entrepreneurs with their own desks, who are well versed in these procedures, forms and other requirements (Figure 2.3.xi). These individuals help the applicants with their forms -- for a charge -- on an informal yet regular basis.

2.4 THE INTERFACE BETWEEN THE LAND INFORMATION AND URBAN PROPERTY TAXATION SYSTEM

It is apparent that a lot of the information required by each of the institutions are similar and therefore, there is substantial overlap in the type of information recorded in each place. However, there is no coordination or exchange of information between any of the institutions as each surveys and records its own information. It is also not immediately clear which institution is primarily responsible for maintaining a Land Information System. As a result, a search into the inventory and procedures have been necessary for this study. Although the City Survey Offices are the most likely institutions for maintaining the inventory of properties, its records are far from complete or accurate. Even if some policy barriers to comprehensive datasets on properties were overlooked, such as the practice of excluding unauthorized properties, none of the institutions had a comprehensive inventory of properties, even in terms of the authorized properties only. There are a number of administrative and procedural bottlenecks that clog the systems. The entire system exists in an environment of administrative slack, with little or no accountability for the information maintained.

The lack of a complete inventory of taxable properties, compounded by the lack of information sharing, directly affects the size of the revenue base and, therefore, the revenue generated through the Property Taxation System. In addition, the Property Taxation System suffers from its own policy, regulatory, and institutional deficiencies, which diminish the revenue generated. The following section presents a summary of the Property Taxation System in the three cities. Detailed analysis of the constraints in both systems are presented in Chapter 3.

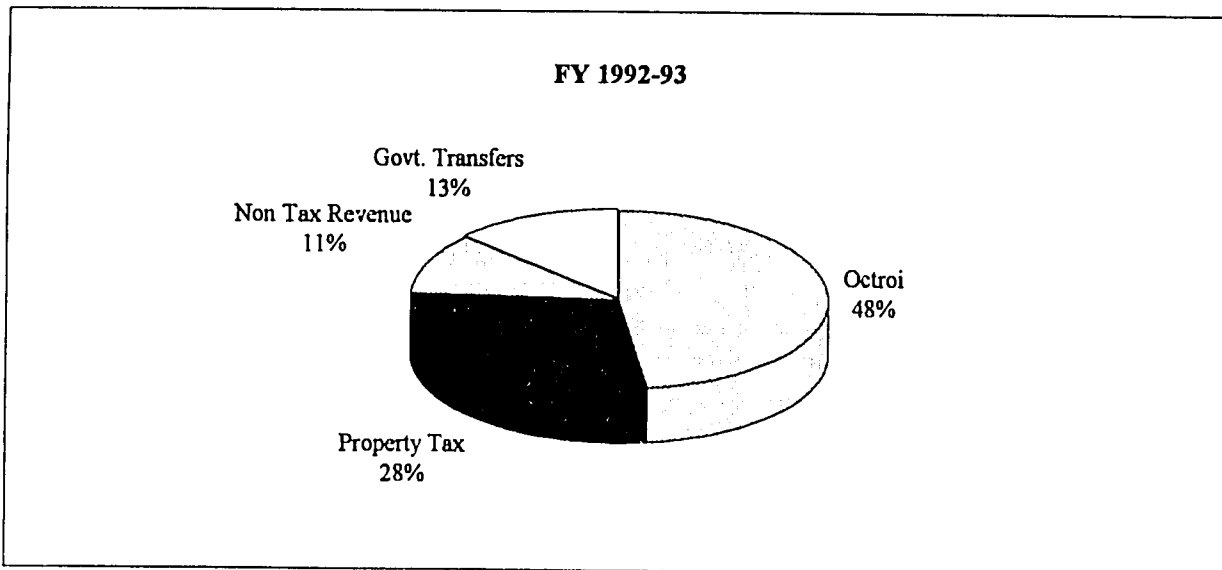
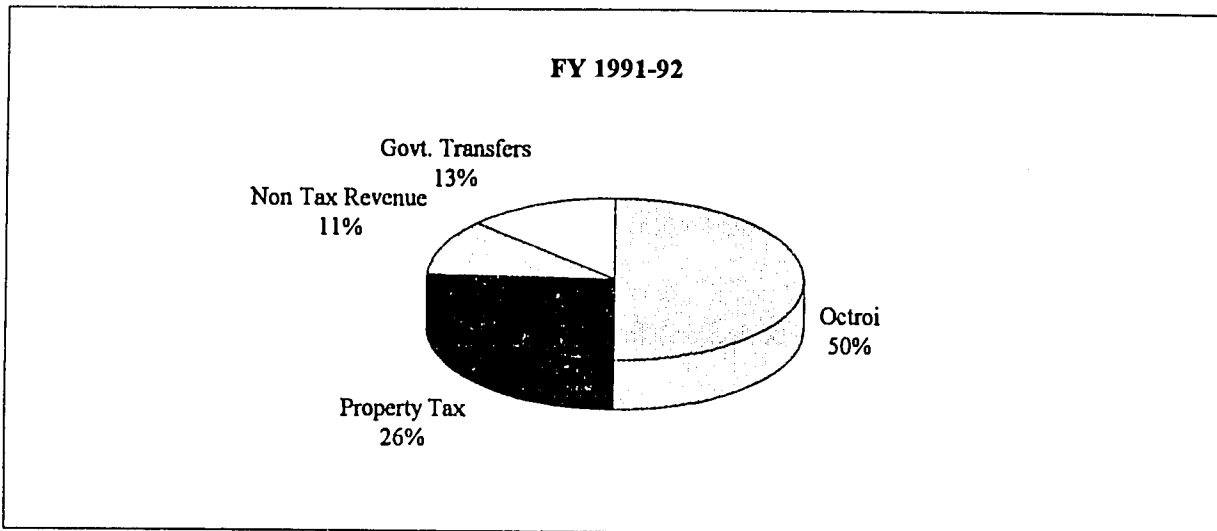
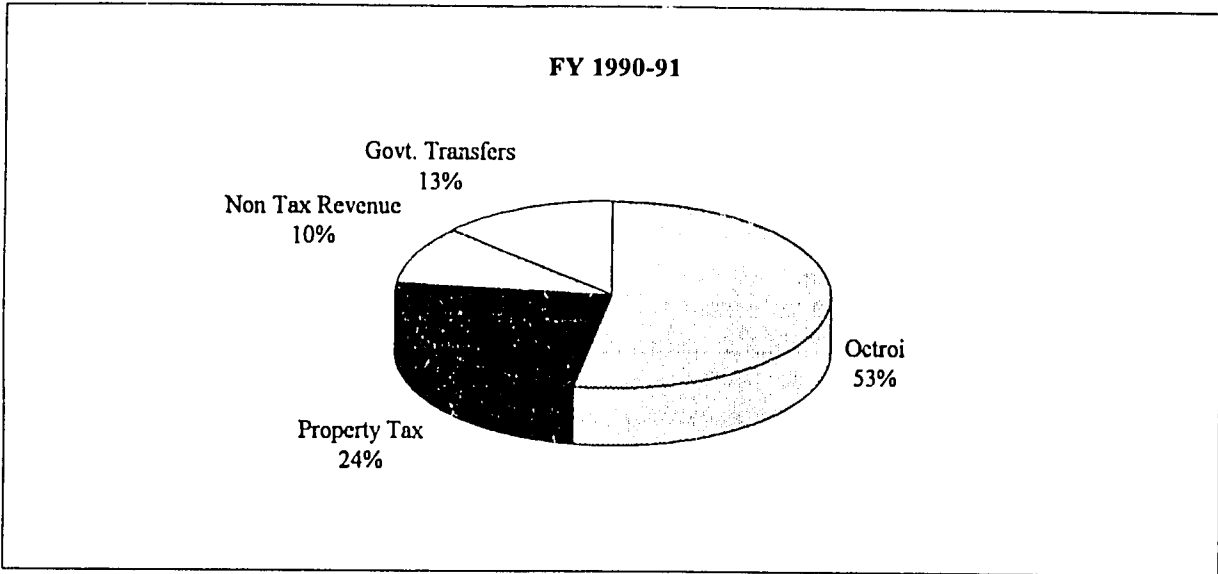
2.5 URBAN PROPERTY TAXATION SYSTEM

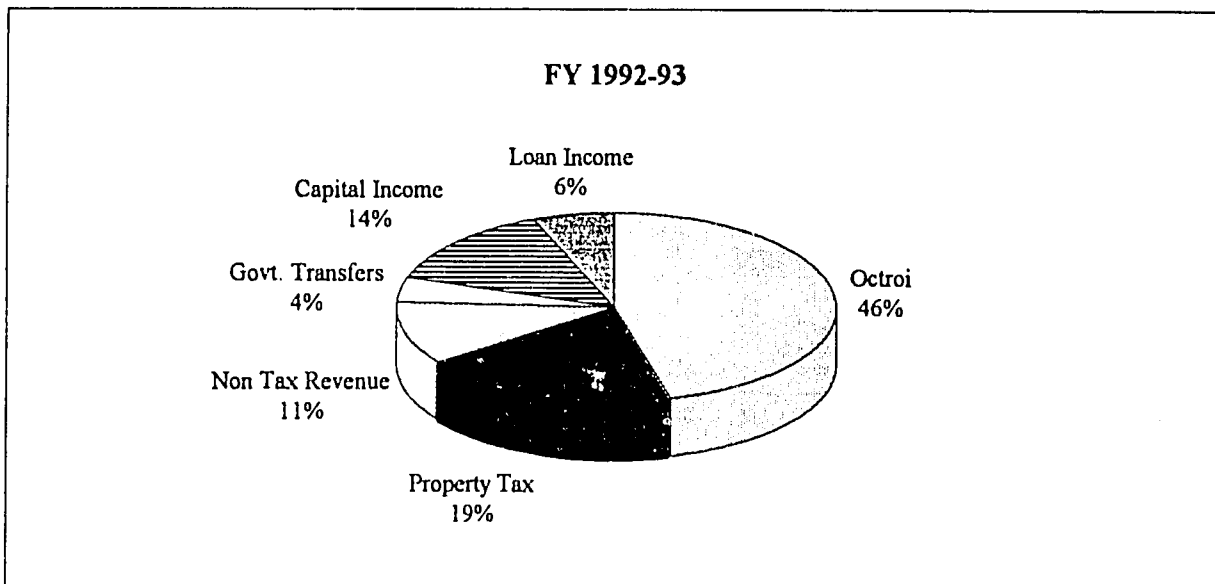
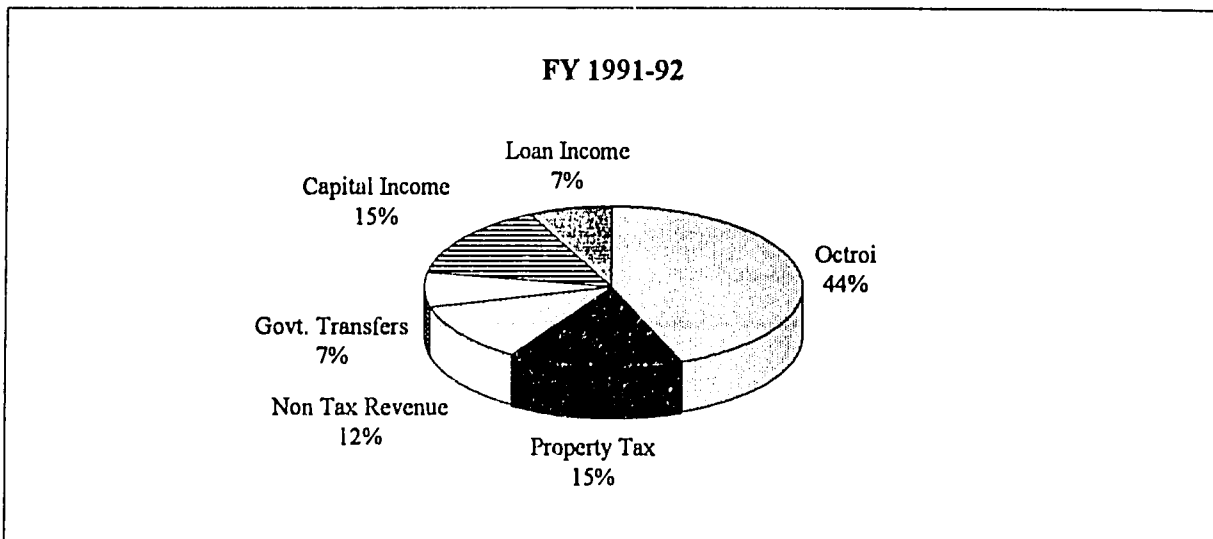
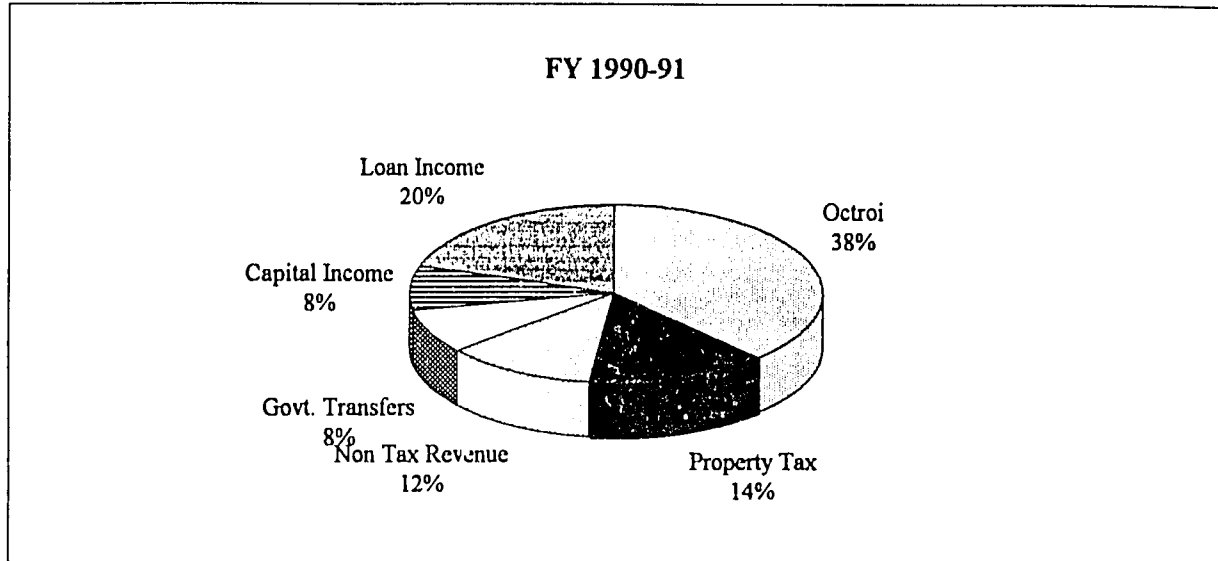
The Municipal Corporation in each city is responsible for administering the Property Taxation System within the jurisdiction of the Corporation. Outside the city limits but within the area under the Urban Agglomerations, various rural local governments, *Panchayats*, administer and collect Property Tax. The Bombay Provincial Municipal Corporations Act of 1949 (BPMC Act) is the Governing Act for Baroda and Rajkot Municipal Corporations. The Karnataka Municipal Corporations Act, 1976, is the Governing Act for Mysore City Corporation.

2.5.i Sources of Local Government Finance

The Octroi and Property Tax are the two most important sources of revenue for India's local governments (See Figure 2.5.i). In Baroda, the Property Tax accounted for 23.9% of total receipts in FY 1990-91, 26.66% in FY 1991-92 and 28.1% in FY 1992-93, while the Octroi ranged from 52.4% to 47.6% in the three financial years. In Rajkot, in FY 1990-91, Property Tax accounted for 14% of total receipts, 15% in FY 1991-92 and 19% in FY 1992-93. The Octroi in Rajkot ranged between 38% to 46% in the three financial years. In Mysore, in FY 1990-91 and FY 1991-92, Property Tax accounted for 17% of total local receipts and 18% in FY 1992-93, while the Octroi accounted for 20% to 22% in these three years. Detailed data on sources of local government finance in Baroda, Rajkot, and Mysore are presented in Annexes II, III and IV, respectively.

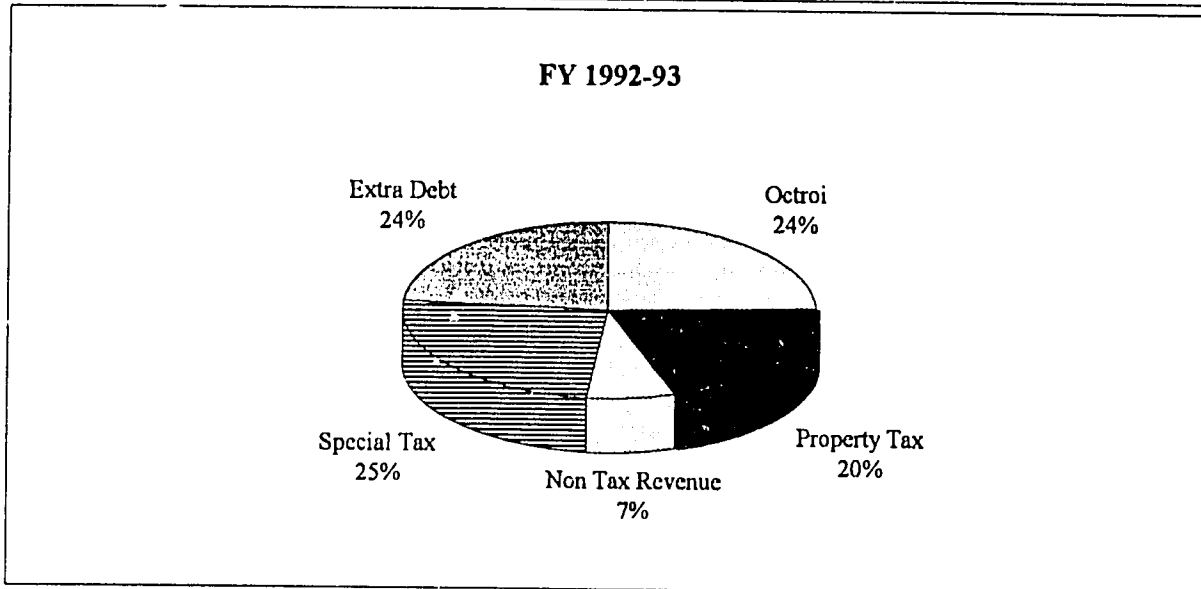
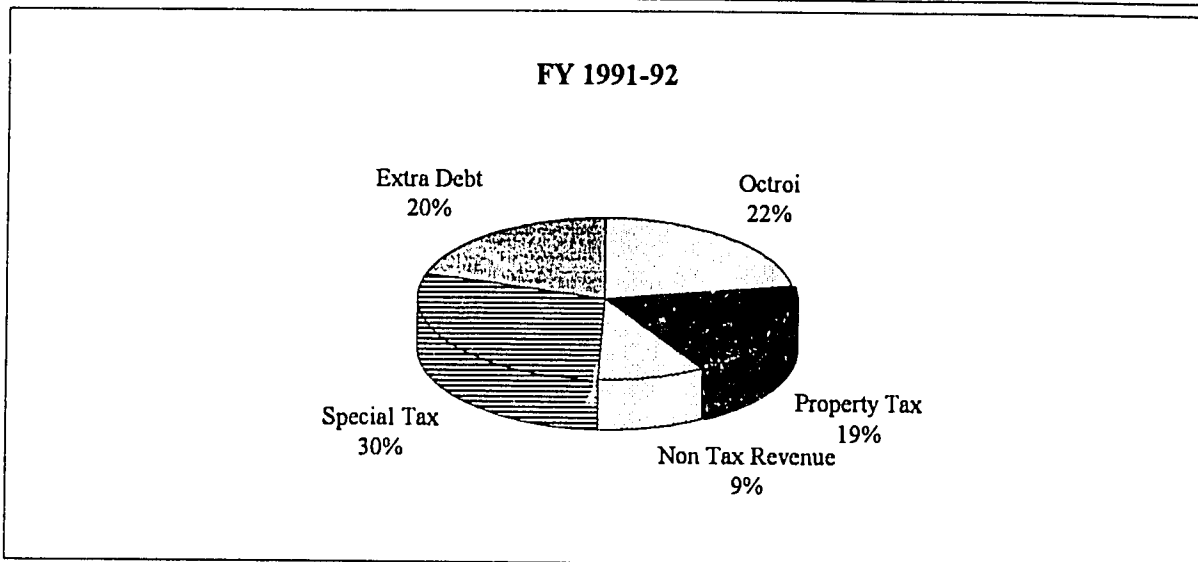
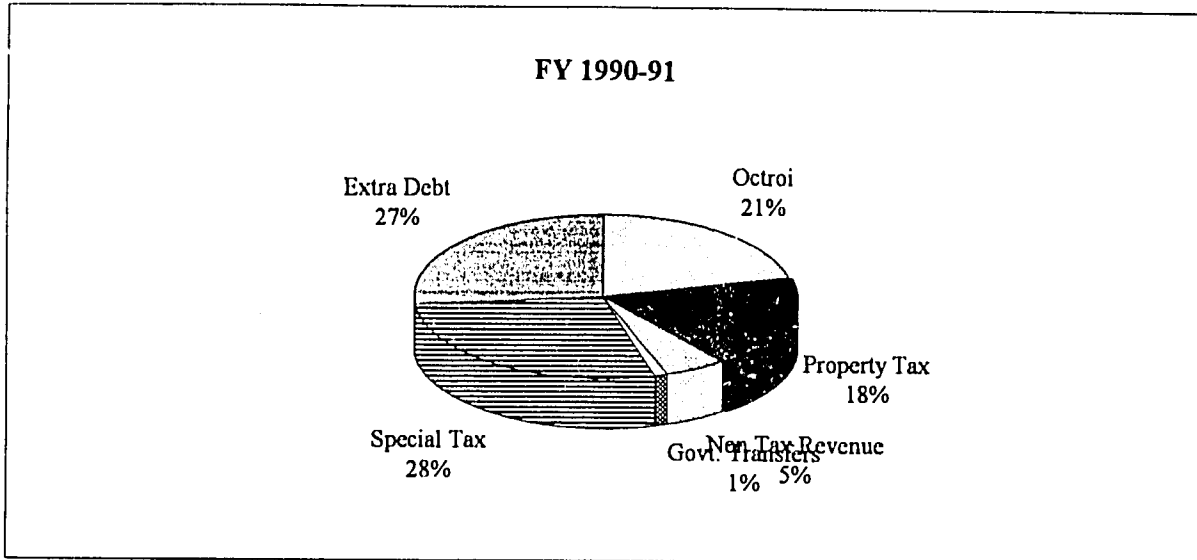
2.5.i Sources of Local Government Finance: Baroda





Sources of Local Government Finance:

Mysore



In addition to taxes, the local governments impose a variety of fees for the use of public facilities and services (such as license fees for shops and industries, land rent, swimming pool, public hall and building, gardens, ambulances, etc.). Locally administered taxes and charges are supplemented by central government grants. The Corporations also have their own capital income from selling land, commercial center developments, HUDCO (Housing and Urban Development Corporation) Scheme House Rents, Betterment Levies, donations etc. (For detailed breakdown of sources and amounts refer Annexes II, III, and IV).

2.5.ii Property Taxation Structure

Property Tax is levied on the basis of *Annual Rental Value* of properties in the three cities. In Baroda and Rajkot, Property Tax, as laid down in the BPMC Act, comprises the following taxes, subject to exceptions, limitations and exemptions:

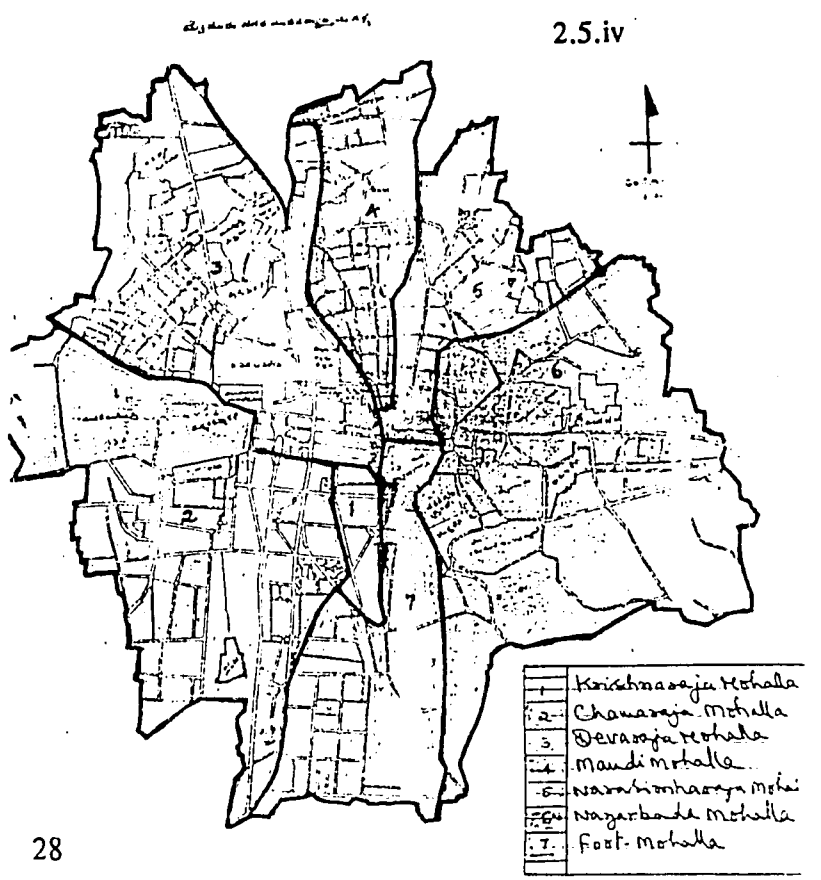
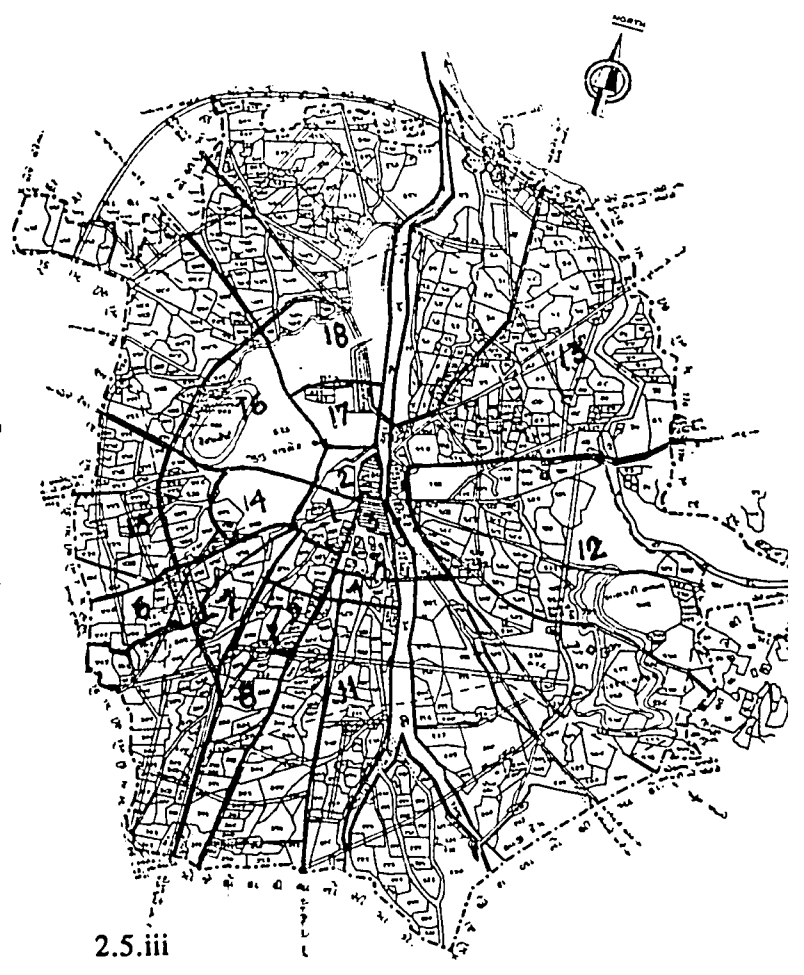
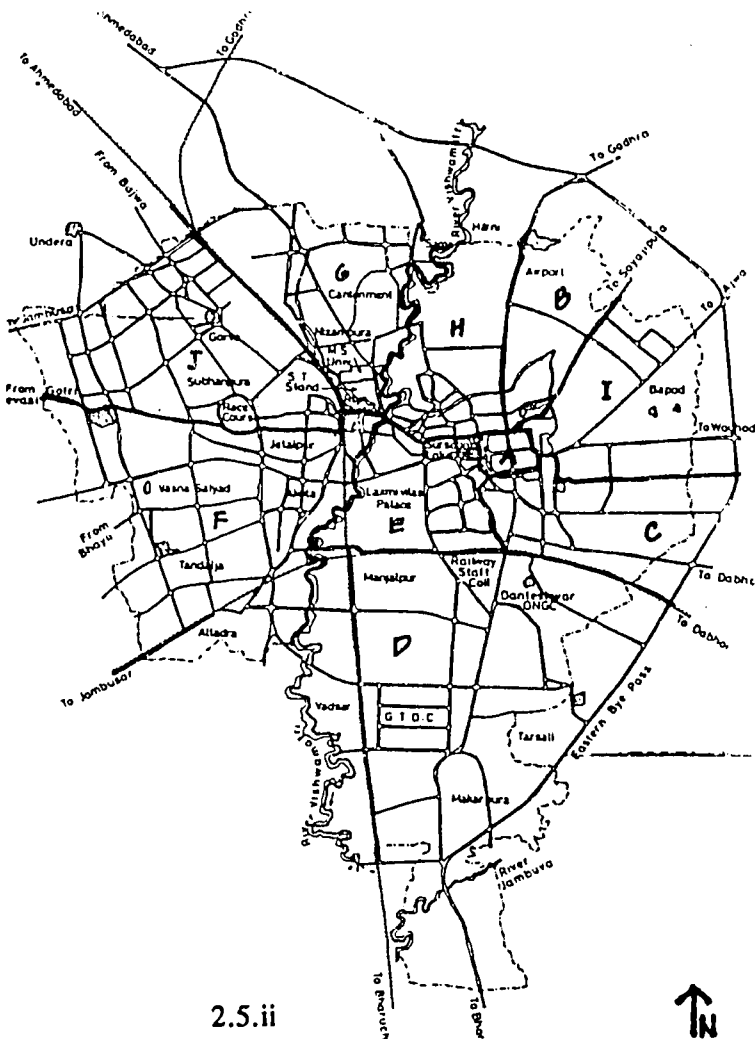
- a. A Water Tax for providing water supply from the city;
- b. A Conservancy Tax for providing and maintaining a sewage disposal system; and
- c. A General Tax on the property.

In Mysore, Property Tax consists of:

- a. House Tax, and
- b. Cess (Education, health, beggary, library).

The Property Tax is administered through the Tax Assessment Division of the Corporations. Property owners are notified of their liability once a year. In Baroda and Rajkot, the tax is collected once a year, while in Mysore the citizens pay their dues in two installments in a year. For the purpose of administration of taxes and municipal services, the cities are divided into minor subdivisions. These divisions have been made on the basis of existing roads with approximately equal population in each ward. *Baroda* has been divided into ten Wards (Figure 2.5.ii). *Rajkot City* has been divided into 19 administrative wards (Figure 2.5.iii). *Mysore City* has been divided into eleven subdivisions - known as *Mohallas*. There are three "Market Mohallas" and eight regular *mohallas* (Figure 2.5.iv). The market *mohalla* consists of entirely commercial property owned by the Corporation. The other *mohallas* consist of a mix of land use where property is owned by private property owners and public agencies.

In both Baroda and Mysore, Ward Offices are located in each of the subdivisions. The purpose of the Ward Offices is to facilitate decentralization of administrative services and to ensure citizens easier access to their Local Government for payment of dues and registering grievances. Rajkot Municipal Corporation on the other hand does not have Ward Offices. All the principal functions, except collection of taxes, are administered from the Tax Division at the Corporation. For collection purposes, the Corporation collaborates with a national bank which has branch offices distributed across the city. The citizens pay their dues either at these banks or at the Corporation directly.



- 2.5.ii Ward Map of Baroda
- 2.5.iii Ward map of Rajkot
- 2.5.iv Ward map of Mysore

Maps are not to scale

Divisions within the Corporation involved in administration of Property Tax: Various divisions within each Corporation are responsible for various stages of administration of Property Tax:

- a. The Building Permission Division: The Building Permission Division, which issues building licenses typically aids in discovery of properties by sending information about new construction and alteration to properties to the Tax Assessment Division.
- b. The Tax Assessment Division: Depending on the level of decentralization, the functions of the other divisions vary considerably from city to city. In Mysore where the tax administration function is most decentralized, the Tax Assessment Division plays the overall supervisory role. It is the sanctioning authority of all decisions regarding administration of Property Tax. In Rajkot, on the other hand the Tax Division undertakes all the stages in the process of administration of Property Tax except billing, i.e. identification, valuation, assessment, and collection. In Baroda, the Tax Assessment Division is responsible principally for valuation and assessment of properties and maintenance of all relevant records.
- c. Billing: In Baroda and Rajkot the process of Billing has been computerized. The Electronic Data Processing Center in the Baroda Municipal Corporation produces the bills. In Rajkot, a private contracting firm is hired to prepare and deliver the bills through private couriers. In Mysore, the bills are prepared manually in the *Mohalla* Offices.
- d. The Ward Offices/Mohalla Offices: In Baroda, the Ward Offices are responsible for collection of taxes, updating records, and follow up of delinquents. In Mysore, the *mohalla* offices perform almost all the functions of tax administration: discovery, valuation, assessment, billing, collection, as well as the maintenance of all records of properties in their jurisdiction. The Tax Division at the Corporation retains all the authority of sanctioning any changes in ARV and rate setting. As stated above, branch offices of a nationalized bank serve the collection function for the Rajkot Municipal Corporation.

2.5.iii The Process of Property Tax Administration

The process of Property Tax Administration comprises of five basic functions. These are: Identification, Valuation, Assessment and Rate Setting, Billing and Collection. The governing acts lay down only the broadest guidelines for each of these steps. Beyond these statutory guidelines, each of the Corporations have adopted their own administrative procedures which are substantially distinct from the others. Following is a brief summary description of each step. Detailed policies and procedures adopted by each city are stated in the annexes.

a. Identification

The Corporations use four principal modes to identify properties:

i. Direct Notification by the Owner: Statutory requirements place the burden of notification of acquisition of property on the owner/person liable for payment of the Property Tax. In the absence of such notification within stipulated time periods,⁸ the owner or the person primarily liable for payment of taxes for the premise, continues to be liable for payment of all applicable taxes on the property as well as any other liability in terms of penalties incurred during this period. This process however is not entirely successful because the Property Tax is not visibly linked to any other benefits or penalties, and therefore, the benefits of paying Property Tax elude most citizens.

ii. Notification from the Building Permission Division to the Tax Assessment Division -- in case of new construction or major improvements : One of the more effective modes of discovery is the notification of the completion of a building by the Division of the Corporation which issues Building Permissions. A copy of the completion report, accompanied by a sanctioned plan of the building, details of the plot area and built area, details of construction materials, and cost of construction, etc. is sent to the Tax Assessment Division after a Completion Certificate or an Occupation Certificate is issued to the property owner. Subsequently, the owner is requested for further documents, and the premises are assessed by the Tax Inspectors. Once all relevant information has been obtained, the entry is recorded in the Assessment Registers as a taxable property.

The procedure for obtaining building permission in all the three cities is, however, so complicated, tedious, and fraught with corruption (See Annexes) that new construction is often not reported to the Corporations. The only incentive for obtaining building permissions or other similar permits is to obtain 'legal' connection to drainage system, electricity and water supply. These, however, can be obtained through informal channels for a minimal price, further reducing the incentive to pay. Only in Rajkot is the incentive for connection to water supply effective because water is a scarce commodity in the arid regions of Gujarat.

iii. Through Field Visits of the Tax Inspectors: Although this method is practiced by each of the Corporations, it is most effective in Mysore because of decentralized nature of tax administration structure. Each of the *Mohalla* Offices employs 6-8 Revenue Inspectors. The Corporation on the whole employs 57 inspectors. Each *mohalla* is subdivided into blocks each supervised by one inspector. These inspectors frequently patrol their blocks and have an intimate

⁸ For instance, in Baroda and Rajkot: (a) in the event of death of the person primarily liable for the payment of the tax, the heir must notify the corporation within a year of the demise of the former; or (b) when a new building is erected, or rebuilt and altered, or a vacant building is re-occupied, or when the use of the building is changed, the person primarily liable for the payment of taxes for the premise must notify the corporation within fifteen days; or (c) in case of transfer of ownership of the property, the person to whom the rights have been transferred must notify the corporation within three months after the execution of the transfer.

knowledge of building activities in this area. The inspectors are responsible for regularly monitoring and reporting unauthorized construction for taxation purposes.

In Baroda and Rajkot, however, this was not reported as one of the important procedures of discovery of taxable properties. This difference is due to administrative emphasis rather than any other reason, as the Tax Inspectors in these two cities are expected to go out on regular field visits as well.

iv. Revision Assessment: Once every four years (five years in Mysore), a revision assessment of all the properties in the city is undertaken by the Tax Division. During the assessment all the buildings that have undergone any change in form and size, materials used for construction, the rent obtained from the premises, or the use of the property are discovered and assessed for taxation.

This process is labor intensive, time consuming and regularly gives rise to a number lawsuits challenging the new assessment and liabilities levied on the property owners. Rajkot is the only city that is making significant effort at reforming this aspect of the administrative system. It is also implementing self-assessment procedures in an attempt to make the process of assessment transparent and less litigious. It is also the only city attempting to include unauthorized properties and squatter settlements in its tax base. Detailed description of the reforms are presented in Annex III.

b. Valuation

Property Tax is assessed on the basis of *Annual Rental Value (ARV)* of the properties in all the three cities. No written guidelines exist for the method of valuation of the properties. Each of the Municipal Corporations have adopted their own methods of assessing the ARV of properties. The *Ratable Value* on which the tax is assessed is different from the ARV. In Mysore, out of twelve months rent, two months rent is subtracted for maintenance costs and the remaining ten months rent is taken as the Ratable value. In Baroda and Rajkot, 10% of the ARV is subtracted to arrive at the Ratable value.

i. For Rental Properties - On the basis of rent paid or Rent Agreements: The only common method of assessing the ARVs among the cities is the on the basis of Rent Agreements between the owner and the renter. Rented properties are valued on the basis of actual rent paid or, more correctly, as declared by the tenants and property owners in the Rent Agreements.

The actual rent paid by the renters are often well above the rent stated in the Agreement, as the Agreements state the rents as per the stipulations of the Rent Control Act. The Corporation officials are well aware that the rents are often under-declared and significantly below the actual market value of the rent. In some cases the rents are assessed by 'local enquiry' of the neighbors. This is rare however. The declared rent usually forms the basis of valuation resulting in revenue loss for the Corporation.

ii. For properties used by the owners: In Baroda the rules and regulations stated in the BPMC Act require the person liable for payment of the tax, to furnish all the information pertaining to the construction of the house -- its construction cost, area, etc. However, in reality, the properties are valued as per the assessment officers' judgement of the rent a building with a like standard of construction might fetch in a particular locality. The assessment of the property also differs on the basis of its use. A building used for commercial purposes is, therefore, valued differently from a residential building.

In Rajkot the Tax Inspectors collect all the required information, such as the location of the property, built-up area, type of construction, etc. The rental rates are, however, assigned by the Corporation Officials, i.e. the Commissioner, the City Engineer, and the Tax Officer on the basis of their personal knowledge of the market value of the properties. The rates are assigned as per the income status of various localities and type of use of the premises.

In Mysore, an elaborate method of calculation involving formulae and fixed schedules of ratios reflecting the type and cost of construction and location is used by the Revenue Office to arrive at Ratable value of properties (Refer Annex IV & VI). These ratios are intended to differentiate between the assessed values according to the cost of construction, and between the localities according to the residents' income group. But none of the officers interviewed knew how these ratios were derived. The schedules had not been updated in at least the last few years. It was apparent, and the officers agreed, that the schedules did not reflect the current market values of construction or properties. In case of minor discrepancies or objections from the property owners, the Revenue Officer has the discretion to enhance or depreciate the ratable value. This procedure leaves the door open for corruption.

iii. Revision Assessment: All properties in each of the cities are revalued during periodic Revision Assessments. However, due to the Rent Control Act and political pressures, there is marginal change, if any, in the valuation of the properties. The policies which drive the revaluation process do not allow changes in market prices of the properties to be reflected in the ratable values. This value, once assigned, may be changed only when the property has undergone a change in its use, rent, or additional construction. Also, in the absence of a set of uniform and objective guidelines, the revaluation suffers from the same drawbacks of subjective valuation. In Mysore, during Revision Assessment, ARVs are enhanced for all the properties alike - by 100% of previous values for commercial properties and 50-75% for residential areas. The last revision, however, was undertaken in 1984, since the revision was challenged by the citizens of Mysore.

c. Assessment and Rate Setting

The Property Tax is determined on the basis of the ratable value assessed and is levied per household. All the taxes are levied as a percentage of the Ratable value of the properties. The Property Tax typically comprises taxes in addition to the House Tax. These associated taxes and rates are different from city to city. The associated taxes are important in that they influence the leverage of the Property Tax at large. The Property Tax itself often does not have many visible benefits, and therefore the tangible benefits of the associated taxes are important in ensuring the payment of taxes.

In Baroda, the Property Tax consists of the following:

- a. Water Tax -- 3% of the Ratable value or Rs. 90, which ever is higher;
- b. Conservancy Tax -- calculated on the basis of Ratable value, this tax differs according to the use of the premises. It ranges from 5% for residential buildings to 20% for large factories;
- c. General Tax or the House Tax -- This tax is levied on a graduated scale, ranging from 12% to 30% of Ratable values. These rates are applicable to all properties irrespective of their sectoral use. Properties with Ratable value ranging from Rs 1 to Rs. 600 are exempt from general tax.

In Rajkot, the Property Tax comprises the following:

- a. Education Cess -- Collected on behalf of the State Government, this tax is levied on a graduated scale. Unlike the House Tax, different rates apply to residential (3% to 10%) and commercial properties (7% to 20%). Properties with ratable values of Rs. 1 to Rs. 300 are exempt from this tax;
- b. Conservancy Tax -- Levied on the basis of Ratable values, as in Baroda, the tax ranges from 4% for residential building to 10% for large factories;
- c. General Tax or the House Tax -- As in Baroda the tax rate differs according to different slabs of Ratable value of property. These rates, which range from 12% to 30%, are applicable to all properties irrespective of its use. Sectoral differentiation is incorporated during valuation as properties under different use are valued according to different rates.

In Mysore, the Property Tax constitutes the following:

- a. The House Tax at 20% of the Ratable value. The Property Tax is levied at a fixed percentage of the Ratable value of a building irrespective of its sectoral use. The distinction is made during assessment of the Ratable values which varies according to the quality of construction, locality, and the use of the building (commercial, residential or industrial).
- b. The Cess Tax at 6.2% of the Ratable value. This consists of Education Cess (2%), Health Cess (3%), Beggary Cess (0.6%), and Library Cess (0.6%).

Once the amount of tax due is assessed, it is entered in the Assessment Register. This is considered an important record in all the three cities as proof of ownership during lawsuits (For further details of the taxation structure in each city, refer to the respective city Annexes II, III and IV).

Notification and Objections: The assessment and tax due for each property are published annually in the local news papers, as per statutory requirements, and are posted in prominent locations of the cities. The person liable for payment of taxes is required to raise any objections within a stipulated time period of fifteen days. Typically, such objections are many, especially after the Revision Assessment period. The Tax Divisions of each city employs officers to deal specifically with complaints. If the taxpayer is not satisfied, he or she can take the matter to a

Board of Appeals and subsequently to the civil courts for arbitration. Seventy five percent of the tax must be paid before the citizens can take their case to the court. This entire process takes between six months to six years. While the cases are under litigation, no tax is levied on the property, resulting in yet another source of revenue leakage.

Updating: Updating the tax rates is a extremely politicized process in all the three cities. Any increase in taxes must be sanctioned by the council of elected representatives of the cities. This issue is typically disfavored by the political representatives resulting in minimal increases in the tax rates. In Mysore the ARV, as opposed to the tax rates, is enhanced, by 50% to 100%, every four years. As stated before, as a result of ARV enhancement in the previous Revision Assessment, the citizens of Mysore have filed a suit against the Corporation, effectively making tax collection on enhanced rates impossible.

d. Billing

The bills are issued by the Corporations by March 31 each year and distributed manually to every household. In the absence of a reliable postal service, bills have to be delivered to the doorstep of each household and signature of receipt obtained from the tax payers. In Mysore the bills are prepared by hand in the Ward Offices and hand delivered to each door. Baroda and Rajkot have instituted some important reforms with respect to this function of the taxation process. In Baroda the bills are prepared by the Electronic Data Processing Center and distributed manually through the Ward Offices. In Rajkot, the bills are prepared on computers by a contracting private firm in Ahmedabad, and distributed by private couriers to each door.

e. Collection

Decentralized system of collection: The total demand raised must be paid by the property owner or person liable for payment of taxes within a stipulated time period, once every year in Baroda and Rajkot and once every half year in Mysore. In Baroda and Mysore, citizens may pay their taxes to the Ward Offices in their locality or to the Corporation directly. In Mysore, the revenue inspectors, also visit each household to collect taxes. In Rajkot -- which does not have decentralized Ward Offices -- citizens may pay taxes in one of the eight branches of a nationalized bank located within the city.

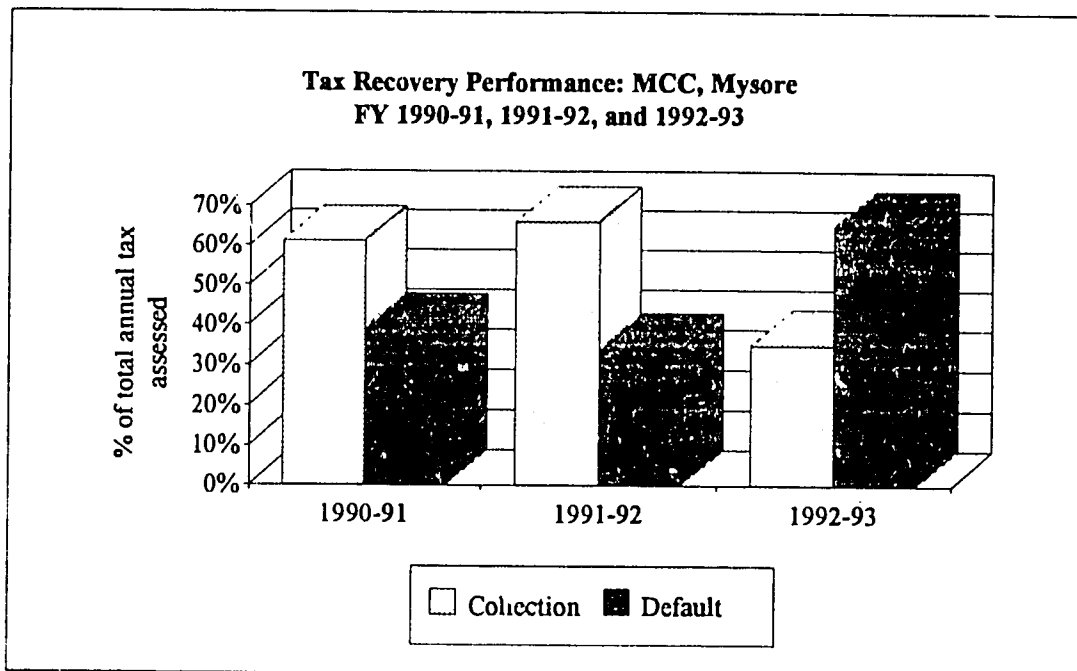
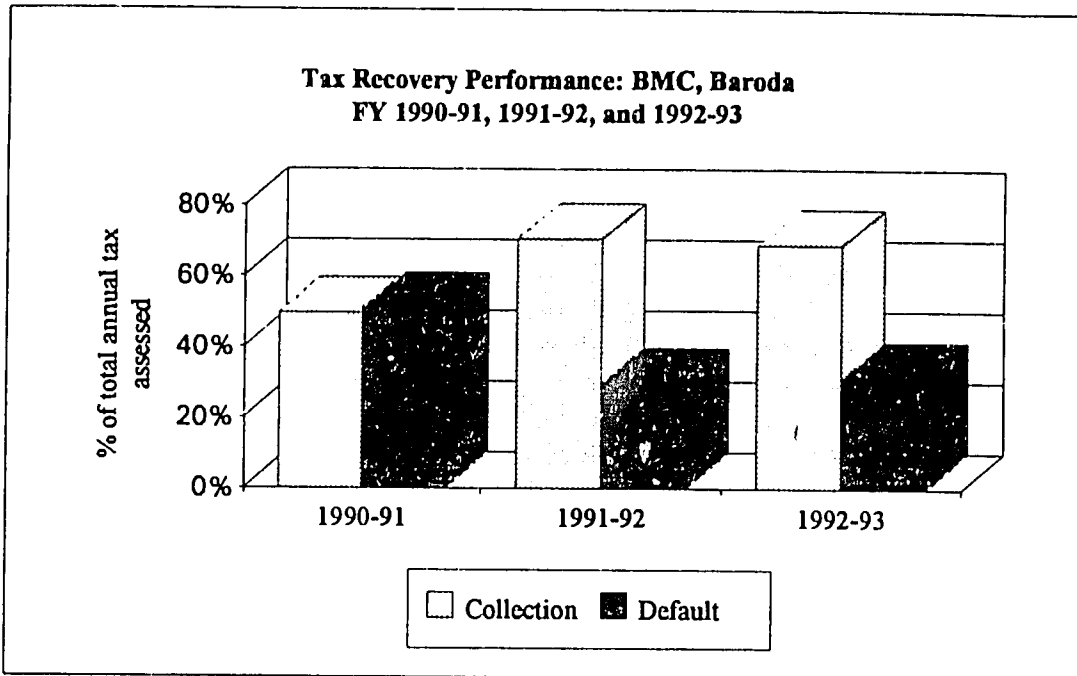
Follow up on delinquents: After a 15 day grace period, in case of default, a penalty of 18% in Baroda and Rajkot and 5% in Mysore, is charged on the tax remaining unpaid. A notice of default is also sent to the defaulters. If the liable person continues to default, any movable property on the premises and the property itself may be auctioned. This is, however, rarely the case in practice. In case of severe financial hardship, the revenue officer has the discretion to allow the payment of dues, including the interest charged, on an installment basis. Apart from creating room for further corruption, this results in a substantial backlog and a net revenue loss to the Corporation.

2.6 TAX RECOVERY PERFORMANCE

The rate of recovery of Property Tax in Baroda ranged from 50% in FY 1990-91 to around 70% in the subsequent years. The recovery rate Mysore ranged from 61% to around 66% in the first two years, i.e. FY 1990-91, 1991-92. The percentage of tax recovered in FY 1992-93 was reported as 35.5% (See Figure 2.6.i). This is presumably due to the revenue loss due to the citizens suit against the corporations, as well as the fact that the demand assessed also include the arrears from previous years. The recovery rate in Rajkot was reported as 107%, 108% and 113% in the three consecutive years. These figure do not present a fair means of comparison because they are calculated against the target set by the Corporation not the actual demand assessed for the city.

The tax recovery performance of Baroda and Mysore indicate that there is substantial leakage in revenue collection. The revenue shortfall is in reality even larger, as the demand assessed suffers from significant shortcomings such as: (a) the property values assessed do not reflect market prices and are indeed depressed by Rent Control Acts, etc., (b) unauthorized properties are not taxed, (c) not all properties eligible for taxation are reported in the tax roll, (d) systemic corruption, and (e) subjective methods of valuation and a politicized system of taxation. These issues are discussed in greater detail in the following chapters.

2.6.i Tax Recovery Performance:
Baroda, Rajkot and Mysore



Tax Recovery Performance: RMC, Rajkot -- At RMC, the Tax Recovery Performance is assessed against a target set by the local council and the RMC, as opposed to the real tax base assessed through valuation procedures. The data available at RMC, therefore, shows an unrealistically high recovery rate -- ranging from 107%, 108%, and 113% in FY 1990-91, 1991 - 92, and 1992-93 respectively.

- i. Multiplicity of institutions;
- ii. Lack of institutional coordination;
- iii. Complexity of procedures;
- iv. High cost of registered transfer of title;
- v. Exclusion of unauthorized properties;
- vi. The mapping system; and
- vii. Administrative inefficiency.

3.2.i Multiplicity of Institutions - Fragmented System of Maintaining Land and Property Information Records

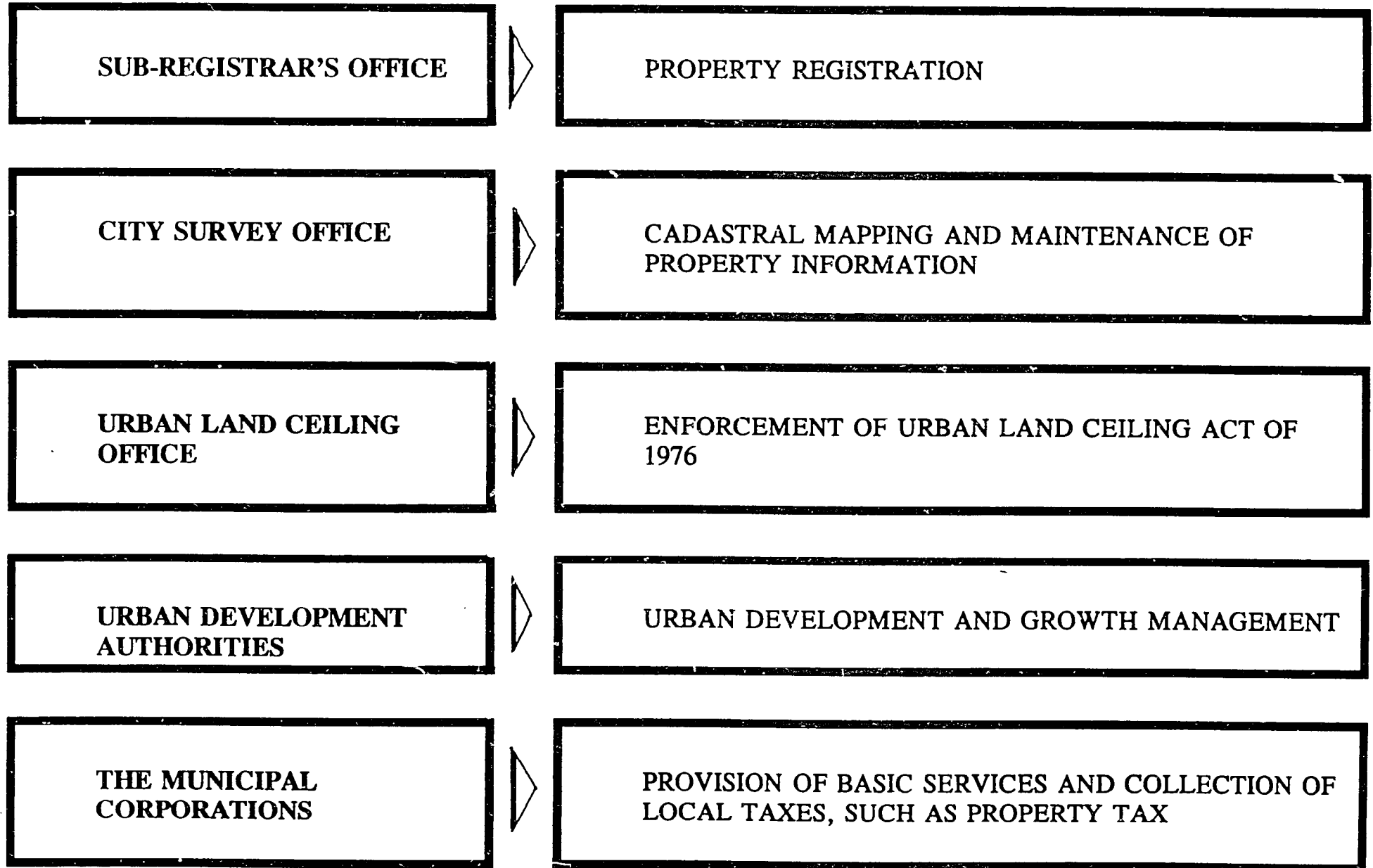
Several central and state government institutions are involved in often overlapping functions of the Land and Property Management and Information System. The typical list of these organizations, with their ascribed functions, appears in Figure 3.2.i. Each of these institutions deals with a separate aspect of land management and operates as an independent body. A citizen must deal with each of these institutions separately to obtain relevant certificates to transfer ownership, obtain building permission, or for litigation. At the minimum, a citizen must visit *at least six institutions* to register transfer of ownership or to obtain building permission.

Despite the large number of institutions involved, there exists no comprehensive and exhaustive record of land and property ownership at one place. None of these institutions are responsible for maintaining a complete, integrated, and comprehensive information on each property within the city. Though the City Survey Office is the only institution dedicated to the maintenance of maps and records, the information maintained by this office is incomplete due to the practice of excluding unregistered parcels of land, out of date records, and the absence of a rigorous method of discovery. The GOI policy of charging a 12% Stamp Duty for registered transactions of properties is one of the important causes of under-reporting. Indeed, whatever information does exist with each of the institutions often does not match, even though it refers to the same area of the city. Information may date back to different periods and is rarely updated simultaneously across institutions on a regular basis.

3.2.ii Lack of institutional coordination

Each of the organizations discussed in Chapter 2, are responsible for different aspects of land management. For instance, the Sub-registrars's Office is responsible for registration of properties, while the City Survey Office is responsible for maintenance of the property records. However, each institution, in the course of executing its function, carries out independent surveys and inventories of properties, and maintains records pertaining to marginally differing aspects of the same property. There is no attempt at exchanging relevant information with others. For instance, the City Survey Office, while carrying out their routine surveys, visit the same properties that the Corporation officials visit for the purpose of assessment. But the unauthorized or new constructions noted by the surveyors are not reported to the Municipal Corporation. This lack of institutional coordination and exchange of information results in substantial *duplication of effort* and a subsequent waste of limited human and financial resources.

3.2.i INSTITUTIONS AND THEIR PRINCIPAL FUNCTIONS



Rajkot was the only city out of the three visited, that had a systematized flow of information from the Sub-registrar's Office to the City Survey Office. Once every month, the Sub-registrars Office sent a list of the properties registered that month to the City Survey Office so that the Property cards may be updated. This was, however, the extent of inter-institutional co-ordination observed in the property information system in Rajkot. Even though such coordination is inadequate in making the property information system comprehensive, it is a hopeful indication that such coordination is possible once it is institutionalized and integrated in the day-to-day working of the systems.

3.2.iii Complexity of procedures

The confusing complexity of procedures - indeed *the sheer number and variety* of documents required for registration of transfer of ownership with each of the institutions, acts as a deterrent to property owners from registering their properties. The *time required* to obtain each of these documents and deal with each stage of the process is substantial. For instance, the officially stipulated time for registering transfer of ownership is forty days at the City Survey Office. By all accounts it takes between two to six months or more, with the concerned citizen making a number of trips to the offices.

Though it is important that each of these institutions perform its stipulated functions, it is equally important that the citizens are not put through the tedious and time consuming processes, often so complex that they defy the understanding and knowledge of even a literate citizen. Accompanying the already complex formal procedures, and indeed feeding off such complexity, are a gamut of *informal channels and associated bribery* which have become incorporated in the day-to-day functioning of the system, so much so that it is often impossible to avoid them.

3.2.iv High cost of registered transfer of title

Two factors, one stipulated by formal statutory regulations and the other due to systemic corruption, lead to a high cost of legal transfer of property. First, the high GOI Stamp Duty (12% of the value of the property), apart from other charges at various offices, act as a serious deterrent to legal transaction of properties. This results in under reporting of authorized properties and subsequent revenue loss for the Corporation. Second, this process is full of delays due principally to systemic corruption and administrative laxity. Smooth registration of transfer of ownership is subject to the discretion of the concerned officers, making ample room for corruption.

3.2.v Exclusion of unauthorized properties

One of the principal limitations of land and property records at each institution is that these record information on legally occupied property only. *For a property to be considered*

legally occupied, requirements specified in approximately thirty acts have to be satisfied. Substantial number of properties that have been traditionally held within a family have acquired 'unauthorized' status due to the formulation of acts such as the Urban Land Ceiling Act. Consequently, there are a number of properties that remain unauthorized.

Apart from these properties each of the cities have a large proportion of squatter settlements. The squatter settlements and the unauthorized properties are often provided basic services, such as drainage and water supply from the Corporation. Where the Corporation does not provide these services, it is common practice to access these services through informal and illegal channels. Therefore, the policy of excluding these properties from property information and taxation system leads to a direct revenue loss to the Corporation.

Rajkot Municipal Corporation has attempted to address this source of revenue loss by including the squatter settlements and unauthorized properties in the tax base and charging them for services provided, despite their unauthorized status. This reform has been introduced only recently. It has faced considerable opposition because inclusion of unauthorized properties in the tax base is considered as an act of regularization of these properties. However, as the Commissioner of Rajkot pointed out, there are four other institutions which also recognize the existence of households living on unregistered land: the Post Office, the Voters' List, the Ration Card, and the Gujarat Electricity Board. So far this initiative has met with considerable success: the households provided with water supply, for the most part, are willingly paying for the services. This is especially effective in Rajkot because water is a rare commodity in the arid regions of Gujarat.

3.2.vi System of Cadastral Surveying and Mapping

The three cities use the manual Plane Table Survey Method for Cadastral Survey. The base maps typically are decades old. These are large, cumbersome, and used only for updating information on specific plot boundaries, etc. on a plot-by-plot basis. Even with the large number of surveyors employed in each of the cities, it is apparent that this system is inadequate for keeping the Property Information and Mapping Systems up-to-date. It is unable to be responsive to the dynamic growth and changes that are characteristic of urban centers such as these, even when the City Survey Offices maintain information on authorized properties only. The manual method of surveying is inadequate for tracking and recording such growth. Clearly, different techniques and systems for surveying, mapping and recording property information needs to be introduced. These are discussed in detail in the following chapter.

3.2.vii Administrative inefficiency in updating of existing records

The records maintained at the various institutions are not updated regularly. The information is updated principally when a property owner approaches the institutions. In a system with considerable dis-incentives (such as the Stamp Duty) and constraints to authorized

transactions of property, placing the burden of declaration on the owners, results in under-reporting and consequently the incomplete information system in these institutions. Even though an official system of regular inventory of properties and maintenance of records exists, it is not practiced rigorously. The *lack of accountability* for all the data maintained by these offices results in indifference among the responsible officers to the information gathered and to the day to day running of the office. This is immediately apparent in the lax atmosphere and the dilapidated state of the records maintained at most of the offices. The systemic *bureaucratic complexity of procedures* allow for further slack in carrying out the simplest functions at each of these institutions. It is important that the administrative procedures be streamlined and the day-to-day functioning of the offices be made more efficient. It is even more important to institute a system which is possibly less complex, but is accountable for the information and functions of the institutions.

3.3 PROPERTY TAXATION SYSTEM

The Local Government in each city is responsible for administering the Property Taxation System. In a centralized system of governance, the Municipal Corporations are guided by Governing Acts which lay out a broadly similar policy, institutional, and administrative environment. While the larger policy framework remains similar across the cities, administrative practices and procedures often vary from one city to the next. As shown in the previous chapter and the detailed descriptions of each city's taxation system in the Annexes, there are considerable similarities in each of the five steps of the administration of the Property Taxation System. Therefore, a large number of issues and bottlenecks are common to all the three cities.

The tax recovery performance in each of the cities show significant revenue losses attributable to these bottlenecks. The Baroda Municipal Corporation suffered a revenue loss of 50.63% in FY 1990-91, 29.72% in FY 1991-92 and 31.23% in FY 1992-93, against the tax assessed for the years. The Mysore City Corporation suffered a revenue loss of 38.6% in FY 1990-91, 34% in FY 1991-92, against the tax assessed for the years. Even overlooking the revenue loss for the FY 1992-93, because 64.5% appears to be an outlier in the absence of any major change in the system in the past few years, the revenue loss is substantial. The data available for Rajkot showed no revenue loss, indeed it showed surplus collection, as this was calculated against the collection target set by the Corporation rather than actual tax assessed for the city. It can not be compared to other city data. It is a fair assumption, that given the similar nature of institutional policy and institutional structure in Rajkot, the revenue loss, despite the recent reforms, would be comparable to the other cities.

The revenue loss is substantial as a percentage of the current annual tax assessed for the cities. This loss is effectively higher than this data indicates due to under-reporting in the number and ARV of properties. Inefficiencies in method of discovery and valuation process results in a reduced value of this assessed demand. There are systemic problems in the method of discovery itself, resulting in loss of revenue through under-identification of properties. The process of valuation itself results in severe underassessment thereby reducing the value of the tax base. Political pressures make it difficult for the Corporation to enhance its tax rate structure on a regular basis. Small administrative problems riddle the process of billing and valuation.

Notable differences in the administration of Property Taxation System are due to specific reforms instituted by some of the cities. Usually these reforms are noticeable more in the procedural implementation of the system, rather than at the policy and regulatory level. For instance, in Baroda and Rajkot the billing systems have been computerized. The RMC has gone a step further and contracted the preparation of billing to a private sector firm. The Corporation has also contracted private couriers to distribute the bills to each household.

Germs of reform at the policy level were found only in Rajkot. It was the only city where an attempt was being made to tax the unauthorized properties for the consumption of municipal services, and therefore, expand its effective property tax base considerably. This is a local level reform which has faced considerable opposition, especially from politicians who would like to see basic services given to squatter settlements for free, as has been the traditional norm. The second notable policy level reform that is currently being implemented is linking water supply effectively with property tax. These will be examined in greater detail in the following sections.

The following section analyzes the common causes of revenue loss associated with each step of the process of property tax administration in the three cities. The bottlenecks specific to a city have been mentioned separately. The reforms instituted by each city at each step of the process have been described specifically as there are considerable lessons to be learned by the other cities. Both the bottlenecks and reforms appear in boxes in the relevant sections. The principal issues that need to be addressed in the Property Taxation System relate to the following:

- i. Method of Discovery,
- ii. Valuation and Assessment Techniques,
- iii. Billing,
- iv. Collection Efficiency, and
- v. Tax Rate and the Policy Environment.

3.3.i Method of Discovery

One of the principal sources of revenue loss is under-identification of properties. This is attributable to policy, procedural, and administrative inefficiencies. Most of these issues are common to all the three cities to a smaller or a greater extent. Various sources of inefficiencies in contributing to under-identification of properties in all the three cities are as follows:

- a. Complex procedure of obtaining Building Permission,
- b. Administrative inefficiencies,
- c. Extent of decentralization of administration,
- d. Burden of declaration on the Property owners,
- e. Absence of leverage in the collection of property tax because it is not linked to the provision of basic services,
- f. High cost of authorized transaction of properties, and
- g. Exclusion of un-authorized properties from the tax base.

a. Complex procedure of obtaining Building Permission: One of the principal methods of identification of properties for taxation purposes is through the Building Permission Division of each Corporation. However, the procedure for obtaining building permission, completion certificate and occupation certificate, as described in the previous chapter, is lengthy and tedious, and fraught with bribery and corruption. By all accounts, this procedure, in itself, acts as a deterrent, even to very educated and literate citizens.

An applicant has to visit many different offices, such as the Urban Development Authority, the Urban Land Ceiling Department, the Water and Sanitation Department and the Building Permission Department. Each requires applications and other documents to issue its own set of documents. The building under construction requires inspections by Corporation officials at various stages of completion. As a result substantial construction takes place without any involvement of the Building Permission Division. This makes it difficult for the Corporations to include these properties and improvements in the tax base.

b. Administrative inefficiencies: Due to administrative inefficiency, the time lag between obtaining building permission and registration of a property in the assessment book of the municipality is almost two years, resulting in revenue loss in the interim period. Such inefficiency is endemic to large government bureaucracies, where the officials typically have secure jobs and do not work towards accountable periodic benchmarks.

c. Extent of decentralization of administration: Rajkot is the only city which does not have decentralized ward offices and carries out all its functions from the Corporation offices. A centralized system precludes the degree of familiarity possible in the decentralized systems of Baroda and Mysore. When identification of property is dependent on an inventory system, level of familiarity with particular areas under the supervision of tax officers, is an important factor in comprehensive discovery of properties.

d. Burden of declaration of the property owners: Although statutory regulations place the burden of declaration of properties on the owner, (with stipulated time periods for declaration under different circumstances, such as sale or inheritance), these rules and penalties are not fully enforced, nor are they successful in ensuring that all taxable properties are registered in the tax roll. Buildings are often built, altered, and occupied without any notification to the corporation. Other government policies, as stated below, provide further dis-incentives for owners to declare their property for taxation.

e. Absence of adequate leverage in the form of tangible benefits, in payment of Property tax: In principle, obtaining basic services, such as water supply and sewage disposal, is contingent upon the payment of property tax. However, in practice this relationship is non-existent in all the three cities, except potentially in Rajkot. There is little incentive to obtain completion certificates, let alone occupation certificates, from the Corporation because: (a) water and electricity can be obtained through informal channels; (b) formal procedures are complex; and (c) obtaining occupation certificate leads to property tax liability. In sum, infrastructure benefits are not tangibly linked to payment of Property Tax.

In Rajkot, however, an effective linkage between water supply and property tax helps provide the Corporation enough leverage to address this source of revenue loss. This is especially effective in Rajkot because water is a scarce commodity in the arid region of the city. The threat of disconnection of water supply persuades the property owners to pay their dues. The lack of easy accessibility of water sources, except for piped water supplied by the municipality, discourages a market for smaller, informal entrepreneurs.

f. High cost of authorized transactions: The Government Policy of charging a large Stamp Duty and Registration Fee (12% of the transaction) at the Sub-registrar's Office acts as a major dis-incentive to authorized transaction of properties. The Land Deed or the Registration Certificate from the Sub-registrars Office is required for obtaining building permission as well as registering for payment of taxes. Therefore, property owners who avoid registration of properties due the high Stamp Duty, cannot obtain building permission from the Corporation. This property then becomes 'unauthorized' and therefore non-taxable.

g. Exclusion of un-authorized properties from the tax base: The policy of exclusion of unauthorized properties from the tax base is one of the important sources of revenue loss for any Corporation, because a large number of these properties have access to municipal services through formal or informal means.

Rajkot is again the only city, as discussed before, which is presently attempting to include these properties in its tax base, in the face of considerable political pressure. This reform has not yet been institutionalized.

3.3.ii Valuation and Assessment Techniques

Valuation is one of the more important steps in the process of property taxation because it directly determines the amount of tax that the Corporation may collect for a property. It is important that the real value of the property is assessed through an objective, legally defensible and consistent method. However, the method of valuation predominantly practiced in each of the cities is dependent almost completely on the personal knowledge and judgement of assessment officers. According to the estimates of a senior officer at the Baroda Municipal Corporation, 40% of the properties on the tax roll are under assessed.

To verify the extent of under-assessment a spot survey of market value of properties was undertaken in Baroda (Annex V). The market value of properties were assessed from local real estate agents and neighboring households. When compared with the rateable values stated in the Assessment Books of the Baroda Municipal Corporation, the survey showed consistent discrepancies between the higher market value of properties and low rents assessed for the purpose of taxation. Underassessment is, therefore, one of important causes of revenue loss.

Though the procedure and process of valuation is important, no written guidelines could be found in any of the cities' governing acts or administrative procedures. This absence of a commonly understood set of guidelines for valuation of properties gives rise to a large number of lawsuits. Apart from further overloading the legal system, these lawsuits also result in revenue loss for the Corporation.

The most apparent reasons for under-assessment of properties are as follows:

- a. Absence of specific guidelines for valuation;
- b. ARV assessed does not reflect market value;
- c. The Rent Control Act; and
- d. The practice of not revaluing the old buildings.

a. Absence of specific guidelines for valuation: No written guidelines for valuation of properties exist in any of the cities. Because assessment is left principally to the personal judgment of the assessment officers, the valuation of the same property may vary considerably from one officer to the next. These officers are not specifically trained for their job and are expected to pick up the skills as they work. The absence of a commonly understood, simple set of guidelines also leaves room for making personal exceptions, resulting in wilful underassessment of properties.

b. ARV assessed does not reflect market value: None of the methods practiced by the Corporations reflect true market value of properties. The three principal methods practiced by all three Corporations are: (a) the judgment of the Assessment Office, (b) the declared rent of the properties, or (c) the information from the Building Permission Department.

In Rajkot, along with these methods the Corporation attempts to systematize the valuation process by a pre-assigned set of values per square foot of property. These rates are again subjective, as they are assigned by the Commissioner and Senior Tax Officers based on their personal knowledge of the market rates. Though there is no verifiable method of obtaining these rates, the values reportedly approximate the market values fairly accurately.

In Mysore, the Corporation also employs a formula-based assessment technique. This method uses ratios and constants, which are derived from cost of construction, location of property etc. (See Annex VI). The basis or method of arriving at these ratios is, however, unclear even to the officers at the Corporation. The Revenue Officer, the head of the Tax Division, himself noted that the ARV derived through this process did not reflect the market value of properties.

c. The Rent Control Act: The rent for properties are subject to Rent Control Act which depress the officially declared value of rent artificially. Therefore, there is often a large gap between the total rent actually paid by the tenant, i.e. the market value of the rent and the amount stated in the rent agreement. As this rent agreement forms the basis of valuation, the properties are invariably underassessed.

d. The practice of not enhancing the ARV of old buildings: The old buildings which have traditionally paid very low property taxes, are not revalued and continue to pay taxes based on low rateable values. Even in the absence of visible improvement of these properties, their current market values are invariably greater than the previously assessed values. Especially in historic cities such as Mysore, the loss of revenue due to underassessment of these properties is considerable.

3.3.iii Billing

Two steps constitute the Billing process:

- a. Preparation of Bills, and
- b. Distribution.

a. Preparation of Bills: In Mysore, as in most Indian cities, each bill is prepared manually by the officers in the Corporation or the *mohalla* offices. In a medium sized city with close to a million properties (including the commercial and vacant properties) on the tax roll, this is a laborious and time consuming process. This builds a time lag into the system and results in associated revenue loss.

In both *Baroda and Rajkot*, the Municipal Corporations have automated this step of the billing process. The BMC produces the bills in house, while RMC has contracted with a private firm in Ahmedabad to prepare the bills. Both the Municipalities are moving actively toward further computerization of the taxation system.

b. Distribution System: In the absence of a reliable postal system, tax bills in every city are hand delivered and signed receipts are obtained from each household. Understandably, in larger cities such as Baroda, Rajkot and Mysore, this is a time consuming process, even with the host of *peons* employed by the Corporations for this task. This process contributes further to overall inefficiency in the Taxation System.

Rajkot City Corporation has attempted to address this problem by contracting with a private firm for delivery of bills. The bills are still hand delivered and signature of receipt obtained from each household, but the private couriers instead of the Corporation are responsible for the entire process. This initiative is considered successful because it has been effective in saving time and cost for the Corporation in comparison to the traditional delivery system.

3.3.iv Collection Efficiency

Collection Efficiency, defined as the current revenue as per current billing, or the Tax Recovery Performance (Figure 2.6.i and Annex II, III, and IV) are related to the following issues:

- a. Decentralization of the Collection Function,
- b. Follow up on Delinquents,
- c. Lawsuits caused by complex Valuation and Assessment Techniques, and
- d. Ineffective linkage of Property Tax with clearly visible benefits.

a. Decentralization of collection function: The collection function is fairly efficient because it has been decentralized by all the municipalities. In Baroda and Mysore, citizens pay their taxes at their ward offices, whereas in Rajkot, in the absence of ward offices, eight branches of a nationalized bank have been assigned the task of collection of payment of taxes on behalf of the municipality. The door-to-door collection system in Mysore further helps improve the efficiency of the collection system.

b. Follow-up on delinquents: The substantially low recovery rate indicates a high rate of default in payment of taxes. In case of default, the Commissioner or the Revenue Officers often reschedule the payment as per their own judgement. Despite the existing rules for follow-up, the delinquent tax payees are typically not penalized. A stricter follow-up on delinquents associated with supply of basic municipal services would potentially ensure a higher recovery rate.

c. Lawsuits caused by complex Valuation and Assessment Techniques: The valuation of properties is one of the major sources of litigation, which apart from choking the legal system, is a direct source of revenue loss to the Corporation. Of the 7000 properties revalued in Rajkot in the ongoing revision assessment, 5200 have filed objections against the valuation of their properties. A large number of these will be litigated in civil courts. Introduction of simple and specific guidelines, by which the citizens themselves could value their properties, would potentially remove many of the instances of litigation.

Rajkot Municipal Corporation has recently introduced a *Self Assessment System*, from May 1993. This initiative attempts to make the system of calculation of ratable value of properties transparent and therefore reduce lawsuits associated with valuation of properties. The Self-Assessment System is especially targeted to include unauthorized properties and squatter households, by giving them the opportunity to access better services through payment of taxes despite their unauthorized status.

d. Ineffective linkage of Property Tax with clearly visible benefits: It is important that payment of property tax be visibly linked with access to basic services or other essential benefits for citizens to readily pay their liability. The structure of Property Tax in Mysore ties the Tax

with non-essential services such as beggary, library, etc. In Baroda, though the Property Tax is linked structurally to essential basic services such as water supply and sewage disposal, non-payment of the taxes does not result in removal of access to these services.

In Rajkot, where the structure of the Property Tax is similar to that of Baroda, access to water supply, is closely linked to payment of the Tax. In the event of non-payment of taxes, the Corporation stops the supply of water to the delinquent household. In the arid region of Rajkot, water is a scarce commodity and therefore informal channels, which typically constitutes one or two person enterprises, are not successful in supplying water to households. On the other hand, the Corporation is actively trying to increase its property tax base by providing official water supply to the each household, despite their illegal status as long as they pay for the basic services and Property Tax. Needless to say, this effort has met with considerable political opposition on behalf of the squatter households who have received these services, in whatever limited amount, for free in the past.

3.3.v Tax Rate and the Policy Environment

Two issues that need critical consideration in this area are:

- a. The Nominal and Effective Tax Rate, and
 - b. Politicized process of establishing tax rates.
- a. The nominal and effective tax rate: The nominal tax rates charged in Baroda and Rajkot range from a minimum rate of 0% for properties with low ARV (the lowest category is exempt from property tax), to a maximum of 30% for properties with high ARV. While in Mysore the nominal rate charged is a flat 26.6%. The effective rate of taxation is, however, considerably lower. Underestimates of the market value reduces the value base of the properties.
- b. Politicized process of enhancing tax rates: Authority to increase the rate structure, within statutory guidelines, rests largely with the Local Council -- the local political authority. Without an objective method of determining tax rates, increasing taxes is an arbitrary and a politically unpopular process. Because there are no visible benefits for the citizens from payment of the Property Tax, and because of corruption and inefficiency in provision of services, increases in tax rates face a lot of opposition from the Local Council as well as the citizens. An attempt to increase the effective tax rate by increasing the annual rental value in 1984, in Mysore, continues to face a legal challenge from the citizens.

In Baroda and Rajkot, the taxation rate is increased every Revision Assessment year. Due to political pressures, however, this increase is marginal. *In Mysore*, effective taxation is enhanced by increasing the ARV of commercial properties by 100% and residential properties by 50%-75% of the previous ARV. This process, by the revenue officer's own admission, is done without an objective basis.

Political leaders should be educated to understand the close correlation between the payment of property tax and adequate provision of municipal services. Simultaneously, training and technical assistance should provide information about objective methods of tax rate enhancement.

The analysis in this chapter suggests a range of specific recommendations and reforms that could be implemented to increase revenue generated from Property Tax. A well functioning Property Taxation System would: (a) progressively eliminate the existing regulatory, institutional, and technical bottlenecks, (b) increase incentives for compliance by the public, and (c) demonstrate the link between revenue generation and improved service provision. The following chapter synthesizes these recommendations for reform.

■

CHAPTER 4

RECOMMENDATIONS FOR ESTABLISHING WELL-FUNCTIONING URBAN LAND INFORMATION AND PROPERTY TAXATION SYSTEMS

4.1 BACKGROUND

Under India's ongoing liberalization program, local governments are becoming increasingly reliant on their own sources of municipal finance. In turn, land information and property taxation systems are becoming increasingly important as a source of finance for local municipal services. However, as the previous chapters have demonstrated, there are presently many bottlenecks to efficient revenue generation from local Property Tax Systems. In the three cities studied, foregone revenue starts with the 30% to 50% losses of the annual demand assessed. In addition, inefficiencies in identification of properties and assessment of values substantially reduces the tax base on which the annual demand is assessed. Although a few reforms have been adapted by the more progressive local governments, such as Baroda and Rajkot, a number of inefficiencies constrain revenue generation through Property Tax from its full potential.

Critical analyses of the Property Taxation System shows a number of causes of revenue leakages. These range from fundamental policy and regulatory constraints, to more mundane everyday practices of administration of the taxation system. The four levels at which reforms should be undertaken:

- a. Central and/or State Government Policy;
- b. Local Government Policy;
- c. Institutional and Administrative Procedures; and
- d. Technical Practices, Skills and Capacities of the Relevant Institutions.

This chapter (1) summarizes in matrix form the constraints in the Land Information and Property Taxation systems, the corresponding sources of inefficiency, and the four levels at which reforms must be undertaken; (2) details in narrative form the recommendations for

addressing these constraints; and (3) concludes with a preliminary program of training and technical assistance to support the reforms.

4.2 INEFFICIENCIES AND THEIR SOURCES:

4.2.i. Land Information System

| <i>Constraints and Issues</i> | <i>To be addressed through</i> | | | |
|--|--------------------------------|---------------------------|--|-------------------------|
| | <i>Central Govt. Policy</i> | <i>Local Govt. Policy</i> | <i>Institutional & Procedural Reform</i> | <i>Technical Reform</i> |
| i. Multiplicity of Institutions | | | X | |
| ii. Lack of Institutional Coordination | | | X | |
| iii. Complexity of Procedures | | | X | |
| iv. High cost of registered transfer of title | X | | | |
| v. Exclusion of unauthorized properties | X | X | | |
| vi. The Cadastral Surveying and Mapping System | | | | X |
| vii. Administrative Inefficiency | | | X | |

4.2.ii. Property Taxation System

| <i>Constraints and Issues</i> | <i>To be addressed through</i> | | | |
|---|--------------------------------|---------------------------|--|-------------------------|
| | <i>Central Govt. Policy</i> | <i>Local Govt. Policy</i> | <i>Institutional & Procedural Reform</i> | <i>Technical Reform</i> |
| <i>a. Method of Discovery:</i> | | | | |
| i. Complex procedure of obtaining Building Permission | | | X | |
| ii. Administrative inefficiencies | | | X | |
| iii. Extent of decentralization of administration | | | X | |
| iv. Burden of declaration on the Owners | | X | X | |

| | | | | |
|---|---|---|---|---|
| v. Absence of leverage in the collection of property tax because it is de-linked from the provision of basic services | | X | | |
| vi. High cost of authorized transactions | X | | X | |
| vii. Exclusion of unauthorized properties from the tax base | X | X | | |
| b. Valuation and Assessment Techniques | | | | |
| i. Absence of specific guidelines for valuation | | | X | X |
| ii. ARV assessed does not reflect market value | X | X | | X |
| iii. The Rent Control Act | X | | | |
| iv. The practice of not revaluing the old buildings | X | X | | |
| c. Billing | | | | |
| i. Preparation of bills | | | | X |
| ii. Distribution System | | | X | |
| d. Collection Efficiency | | | | |
| i. Decentralization of the Collection Function | | | X | |
| ii. Follow up on Delinquents | | | X | |
| iii. Lawsuits arising from complex valuation and Assessment Techniques | | X | X | X |
| iv. Ineffective Linkage of Property Tax with clearly visible benefits | | X | X | |
| e. Tax Rate and Policy Environment | | | | |
| i. The Nominal and Effective Tax Rate | X | | | |
| ii. Politicized Process of Establishing Tax Rates | X | X | | |

4.3 GENERAL RECOMMENDATIONS

4.3.i Reform of Central/State Government Policies

The specific issues that should be addressed by central/state government policy reform are:

a. Land Information System

- i. High cost of registered transfer of title - Reconsider the high Stamp Duty on official transaction of properties. The Stamp Duty imposes a very high cost of official transaction of properties and therefore acts as one of the important deterrents to a comprehensive Property Registration System as well as Information System. The fee, 12% of the transaction, imposed by the central government needs to be re-considered. Indeed if the Stamp Duty were lowered and the link between the fee and services received were made visible, a greater number of property owners would go the official route, potentially increasing the revenue generated through the Stamp Duty.
- ii. Exclusion of unauthorized properties - Include unauthorized properties in the Comprehensive Land and Property Information Database. Approximately 30 different Acts need to be satisfied before a property is considered authorized. The issue of legalization or "authorization" of property, is the matter of a separate discussion. However the policy of excluding these properties from the records of the Land and Property Information System has a direct bearing on revenue generated by the local governments, as well as other central government taxes (Land Tax etc.). Despite their unofficial legal status, a policy of including information on such properties in the inventory is critical to the efficient functioning of the Land Information as well as Property Taxation System.

b. Property Taxation System

- i. High cost of authorized transaction of properties - Reconsider the high Stamp Duty on official transaction of properties. In addition to affecting efficiency of the Land Information System, the high cost of transaction of properties directly reduces the amount of revenue generated from Property Tax by keeping a large number of properties out of the official tax base. The high Stamp Duty should be re-visited by the Central and State Governments from the point of view of the Property Taxation System as well as other land- and property-related functions.
- ii. Exclusion of un-authorized properties from the tax base - Include unauthorized properties that are provided basic municipal services in the tax base. Similarly, exclusion of unauthorized properties affects both the completeness of the Land Information System and the revenue generated by the Property Taxation System. Exclusion of unauthorized properties has the most significant effect on revenue generation because it directly results in non-identification of properties that could be on the tax roll. Typically, in most of the

urban areas of India, apart from "unauthorized" properties⁹, a large number of households live in slums and squatter settlements on illegally occupied land. These settlements are usually under-serviced. To the extent some municipalities provide certain basic services (Rajkot), they are not allowed to charge for these services. These settlements are usually important vote banks for the political leaders. Therefore, any suggestion of charging fees and levying taxes meets with political opposition. From the point of view of revenue loss in Property Tax -- as well as the Water Tax, electricity and other charges -- it is important that these properties be included in the tax base.

- iii. The Rent Control Act - Reconsider & remove the Rent Control Act. The Rent Control Act directly results in under valuation of properties. The Act effectively encourages an informal market where the market value of properties are much higher than officially reported. Since the Property Tax must be assessed on the basis of "official" values, the properties are assessed at a much lower rate for taxation purposes than the real market values, resulting in sizeable revenue loss for the local governments. Regulations such as this Act also create further room for corruption. The Rent Control Act should be reconsidered and removed because it, in effect, does not control real rents.
- iv. The practice of not revaluing the old buildings - Old properties should be revalued periodically, along with new properties, according to the current market values. Buildings once valued are not revalued, even for decades, unless there has been some visible addition and alteration to the properties. However, as a city grows the market values of these buildings often appreciate. Not updating the assessed values of such buildings, therefore, results in smaller ARV than current market values dictate. Consequently, this results in loss in Property Tax. The policy and regulation regarding valuation of such buildings should be changed to reflect the current market values of all properties.
- v. Politicized Process of Establishing Tax Rates - Educate the political leadership about the correlation between provision of basic services and taxation. The extent of political involvement in the administration of the day to day to functioning of the municipal corporations is substantial. This is especially true for the Property Taxation System and other associated taxes for basic services provided such as Water Tax. Politicians driven by the goal of keeping the vote banks appeased as well as socialist philosophy of governance, tend to lobby almost unanimously against raising taxes periodically, changing practices to reflect market values, and removing subsidies from provision of basic services such as water or electricity. It is important that the political leaders understand

⁹ The term "unauthorized properties" refers to two types of properties. The first are the properties in slums and squatter settlements. These are usually constitute structures made of impermanent materials. The second type of properties, generally referred to as unauthorized properties, are usually structures that are illegal in terms of their ownership of the land, i.e. they do not possess title to the land. The superstructures, however, are constructed out of permanent materials such as brick and concrete, and are inseparable in appearance from other properties.

the critical correlation between provision of these services and the necessary financial resource base generated through taxes such as the Property Tax.

- vi. The Nominal and Effective Tax Rate - Ensure the nominal rate of taxation matches the effective rate of taxation. Although the nominal rates of taxation in urban areas are sometimes seemingly high because of hidden subsidies and distortions, the effective rate is considerably lower. Reforms should address the range of policy and regulatory factors responsible for lowering the effective rate of taxation, such as: (a) the Rent Control Act, (b) practices of valuation that do not reflect the market values, and (c) political obstacles to updating the rate of taxation and including unauthorized properties in the tax base.

4.3.ii. Reform of Local Government Policies

The specific issues that must be addressed through local government policy reform are:

a. Land Information System

- i. Multiplicity of institutions, and
- ii. Exclusion of unauthorized properties.

Because the Land Information System is under the control of central and state government, both of the above issues have been dealt with in the previous section. In addition, since these issues affect local government revenue generation directly, the local governments should lobby for: (a) an improved and comprehensive Land and Property Information System with efficient and accountable data sets; (b) greater authority over the maintenance of the Land and Property Information System; and (c) broader and more consistent access to the data base for taxation purposes.

b. Property Taxation System

- i. Burden of declaration on the Property Owners - Improve provision of basic services and establish an effective linkage between payment of the tax and access to these services. In an environment of poor urban services, there is little tangible benefit to the property owners in exchange for payment of the Property Tax. Consequently, there is little incentive for property owners to declare their property for taxation. For owners to pay voluntarily Property Tax, it is important to convey the linkage between payment of taxes and access to basic services. It is important to: (a) improve the provision of basic services, (b) enforce a close link between access to the services and payment of taxes, (c) establish the practice of Self-declaration and Valuation procedures, and (d) improve active discovery through Revision Assessment. Rajkot Municipal Corporation is in the process of introducing a number of reforms which incorporate these recommendations.
- ii. Absence of leverage in the collection of property tax as it is effectively de-linked from the provision of basic services - Improve provision of basic services and establish an effective linkage between payment of the tax and access to these services. A visible, tangible

benefit linked to the payment of taxes is important for the citizens to pay willingly their dues. Such a linkage however must exist (a) in the tax structure itself, (b) in improved provision of basic services, and (c) in establishing the linkage between the two through withdrawal of such services in case of default.

The Property Tax structure in Baroda and Rajkot consist of the Property Tax as well as Water and Conservancy (sewage and waste disposal) charges. In Mysore, however, the Property Tax is associated with not-so essential library or beggary charges. Water Tax is charged by the Water Supply Authorities. As a result, the property owners are reluctant to pay a tax which does not visibly provide them with any essential services. It is important to establish a structural link between the Property Tax as well as taxes for essential services for MCC to generate adequate resources through Property Tax.

However, as the experience in Baroda shows, in the absence of *effective* linkage, just a structural linkage is inadequate. Even though Water Tax is part of the Property Tax in Baroda, both taxes are avoided because the cost and effort required to obtain municipal water services are considerably higher than obtaining water connection from the municipal water supply system through informal means. Avoidance of the formal system results in loss to the Corporation in Water as well as Property Tax. Improved provision of essential services, along with easier administrative procedures, is critical to preventing revenue loss in this manner. Such effective linkage is visible to a large extent in Rajkot.

- iii. Exclusion of un-authorized properties from the tax base - Include unauthorized properties that are provided basic municipal services in the tax base. Recommendations with respect to this issue are similar to the ones presented under the central government policy reform section above. In addition, since local government finances are hurt most by such national policies, the Local Governments should: (a) actively engage in policy dialogues with the Central/State Governments to address such issues, as well as (b) lobby for greater autonomy with respect to issues of local relevance. Rajkot is a prime example where such reforms are taking place at the local government level.
- iv. ARV assessed does not reflect market value - Adopt an explicit policy of market based valuation of properties. Different local governments practice a combination of methods for assessing the ARV of properties, (see Chapter 2 and Annexes II, III, and IV), but none of the methods reflect the real market value of these properties. Because of the Rent Control Act, corruption, and a general lack of knowledge of alternative, more efficient systems of valuation, the ARV assessed per property remains considerably lower than the market value, reducing the magnitude of annual demand assessed. In response, local governments should: (a) engage in policy dialogue with the central government to reconsider the Rent Control Act in this light, (b) adopt an explicit policy of assessing the ARV according to the real market value, and (c) institutionalize market oriented procedures for valuation.
- v. The practice of not revaluing the old buildings - Old properties should be revalued periodically, along with new properties, according to the current market values. The recommendation to address this issue is same as the one with respect to central

jurisdiction, because it must be accountable to both the Sub-registrar's Office as well as the local governments. The staff would have to be trained in current methods of data collection and maintenance of records. Discrete tasks such as collecting data or computerized mapping could be contracted out to private firms.

This institution would maintain all the information -- graphic, fiscal, and legal -- relevant to a property that is required by the various institutions for carrying out their land and property related functions. Success of such a centralized information system in addressing the constraints in the system would be contingent upon the following factors:

1. All the concerned institutions must, on a regular basis, send information to the information bank;
2. The institution must have an active process for gathering data;
3. The information bank must send out such information relevant to each organization on a regular basis;
4. A citizen must be able to access information for a fee;
5. For matters dealing with property, the concerned institution should access such information directly from this Information System rather than the property owner having to provide all the documents repeatedly to each institution;
6. The institution should be held accountable for validity of information, so that each organization need not verify such information again independently. Such accountability must be enforceable by law;
7. For maintenance of records, this institution must incorporate more appropriate techniques of surveying, discovery and storing of information. A centralized information system should rely on a dedicated GIS module complemented by satellite imagery where affordable and manual systems where necessary. Automated data processing would be necessary to handle the volume of information required of such an institution.

Such a centralized information system should help address existing procedural constraints to a comprehensive data base, such as: (a) multiple organizations with which a property owner must deal; (b) regular updating of records on land and properties; (c) lack of comprehensive data on land and properties in the city; (d) duplication of effort ascribed to lack of institutional coordination; (e) reduce complexity of procedures by making available all relevant information under one roof; and (f) reduce corruption by simplifying and reducing the number of steps required for registering transfer of ownership.

Creating a central property and land information bank by making one organization responsible and accountable for valid, comprehensive, and up-to-date information would deal with most of the problems associated with land information in the three cities. A

number of policy and technical inefficiencies have to be resolved, however, before such information system can be successful. The policy and regulatory hurdles to under-identification of properties have been dealt with in section 4.2.i. and 4.2.ii. The City Survey Offices lack a number of technical skills necessary for collection and maintenance of a comprehensive data base. The technical capacity building requirements are discussed in section 4.3.iv.

- ii. Lack of Institutional Coordination - Educate the senior management on the importance of institutional coordination for maintaining a comprehensive data set and incorporating appropriate administrative procedures in the day-to-day functioning of their institutions. Although a Centralized Property Information System would be helpful, the centralized system would be far from comprehensive without regular institutional coordination and sharing of information. The senior management of these institutions would need to understand the importance of institutional coordination and incorporate appropriate procedures in the day-to-day functioning of their institutions.
- iii. Complexity of Procedures - Simplify and streamline their administrative procedures. Enormously complex administrative procedures at each stage of dealings with these institutions, as described in the previous chapters and annexes II, III, and IV, spawns corruption and acts as a deterrent to the citizens in official dealings with respect to their property. These institutions should simplify and streamline their administrative procedures to reduce corruption and to encourage citizens to approach these institutions.
- vi. Administrative Inefficiency - Introduce incentives for competence, simplify procedures, accountability, and educate officers in causes of inefficiencies. An environment of administrative laxity, complexity of procedures, informal procedures, and bribery, compounded by lack of accountability add up to a general administrative inefficiency which has a detrimental effect on the Land Information and Property Taxation systems. The officers of each institution should understand the causes of inefficiencies. While changing institutional culture is difficult, reforms aimed at simplifying procedures, and incentives to increase accountability, pride in efficiency, and competence should be considered.

b. Property Taxation System

- i. Complex procedure of obtaining Building Permission - Simplify procedures. Information from the Building Permission Division is one of important methods of discovery of properties for taxation. However, the complex procedures act as a deterrent to the citizens from obtaining building permission. The procedure can be simplified to a large extent by the Division itself accessing a large number of the documents required from the relevant institutions. A Centralized Property Information System would further facilitate this initiative for the Division.
- ii. Administrative inefficiencies - Introduce incentives for competence, simplify procedures, accountability, and educate officers in causes of inefficiencies. The analysis and recommendations presented under the Land Information System in the section above are

the same for the Taxation System. In addition, the Local Government must improve the provision and access to other services such as water supply and other municipal services as well.

- iii. Extent of decentralization of administration - Decentralize discovery and collection functions of the Property Taxation System. The experience of Mysore and Baroda documents the advantages of a decentralized system of administration. It generates familiarity of the tax officers with properties under their jurisdiction and is important to the discovery and collection system. However, decentralization is a function of the size of the city. For a smaller cities, placing ward officers in each ward would result in higher administrative costs than the benefits gained from such offices. A number of different institutional solutions exist. For instance, Rajko. has decentralized the collection function through nationalized banks. As the city grows, however, the decentralization of some of the Corporation's functions would be important to efficient functioning of the Property Taxation System. Sharing experiences between neighboring cities would be an important way of affecting change in various municipalities.
- iv. Burden of declaration on the property owners - Improve provision of basic services and establish an effective linkage between payment of the tax and access to these services. The recommendation for addressing this issue at the local government policy level is applicable to institutional reforms as well: appropriate institutional practices and procedures are necessary to implement the proposed reforms, such as: (a) improving the provision of basic services, (b) enforcing a close link between access to the services and payment of taxes, (c) establishing the practice of Self-declaration and Valuation procedures, and (d) improving efforts of active discovery through Revision Assessment efforts.
- v. High cost of authorized transaction of properties - Address the issue of systemic corruption associated with various administrative procedures. Apart from the high official cost of transaction (Stamp Duty), the procedures for registering properties and other dealings, include systemic bribery and informal fees. Complex procedures and regulations make even literate citizens dependent on the guidance of relevant officers or informal entrepreneurs to get a job done; such guidance usually has an off-the record price attached. Simplifying procedures, increasing accountability, and providing performance incentives to the officers would potentially reduce such corruption.
- vi. Absence of specific guidelines for valuation - Establish simple, transparent, market oriented, and consistent set of guidelines for valuation. In the absence of explicit guidelines, most of the techniques depend heavily on subjective judgement of the tax officers. None of the techniques reflect real market value of the properties. This directly results in a smaller annual demand assessed. The Corporations should adopt: (a) simple and consistent guidelines for assessment of ARV of properties, (b) guidelines that reflect real market value of properties, (c) a system of recording market values of properties, and (d) guidelines that are advertised and made transparent to the public.

- vii. Distribution System - Use private couriers. The traditional system of distributing bills to each door step through Peons employed by the Corporation results in considerable delay and administrative costs. Rajkot Municipal Corporation has addressed this issue by contracting a private courier firm to distribute the bills. Reportedly, this is a faster and more cost effective process.
- viii. Follow up on Delinquents - Stricter Follow-up. Despite large default rates, the follow-up on delinquents is marginal. Although rules and guidelines exist about follow-up, it is practiced principally as a discretionary measure. Stricter effective follow-up that imposes a high cost of avoidance is essential to an efficiently functioning Property Taxation System.
- ix. Litigation resulting from complex valuation and assessment techniques - Establish simple, transparent, market oriented, and consistent set of guidelines for valuation. Because there are no consistent and defensible principles of valuation, a large proportion of property owners contest the assessed value of their properties in courts. This litigation results in further revenue loss because properties under litigation can not be taxed. The Corporations should adopt: (a) simple and consistent guidelines for assessment of ARV of properties, (b) guidelines that reflect real market value of properties, and (c) guidelines that are advertised and made transparent to the public.
- x. Ineffective Linkage of Property Tax with clearly visible benefits - Improve provision of basic services and establish an effective linkage between payment of the tax and access to these services. The recommendation for addressing this issue at the local government policy level are applicable to institutional reforms as well: appropriate institutional practices and procedures are necessary to implement the proposed reforms.

4.3.iv Technical Reform

a. Land Information System

- i. The Cadastral Surveying and Mapping System - Adopt technically appropriate and improved cadastral surveying and mapping systems. The traditional cadastral surveying and mapping system practiced in all the three cities are similar and depend entirely on manual efforts. Lack of accountability, administrative laxity, and inefficiencies of a manual surveying and mapping system for growing urban centers have resulted in incomplete surveys and out-of-date maps. It is important that the City Survey Offices adopt improved cadastral surveying and mapping systems, appropriate techniques of surveying, and storage of information -- especially if they are entrusted with maintenance of a comprehensive legal and fiscal database on urban properties. Incorporating such information into a dedicated GIS module, complemented by satellite imagery and manual systems would be the logical next step.

b. *Property Taxation System*

- i. Absence of specific guidelines for valuation - Establish simple, transparent, market oriented, and consistent set of guidelines for valuation. As discussed in the sections above, for the efficient functioning of Property Taxation System, the Corporations should adopt: (a) simple and consistent guidelines for assessment of ARV of properties, (b) guidelines that reflect real market value of properties, and (c) guidelines that are advertised and made transparent to the public. In addition, it is important that (d) the Tax Officers are trained regularly in the new methods of valuation. In the current system the tax officers are expected to pick up the skills on the job, including the knowledge of rental value of properties.
- ii. ARV assessed does not reflect market value - Train Tax Officers in market based valuation techniques and establish a system of maintaining current market based real estate information data set on urban properties. Once the policy of market based valuation has been adopted (see Section 4.3.ii, Property Taxation System, section iv.), it would be necessary to institutionalize new methods of valuation for the policy to become practice. The Corporation should (a) adopt and train the tax officers in simple, legally defensible and commonly understood methods of valuation that reflect market values; and (b) commission regular surveys and maintain an up-to-date real estate information system.
- iii. Preparation of bills - Computerize the system of preparing bills. Both Baroda and Rajkot are in the process of computerizing the taxation system. Both have first started with the billing system. Baroda has established an in-house system of preparing the bills, whereas Rajkot contracts this function out to private firms. In Mysore, however, each bill is hand prepared -- a time and resource consuming process. Mysore Municipal Corporation should explore the option of contracting with a private firm as an initial measure, as a more cost effective approach.
- iv. Litigation resulting from complex valuation and assessment techniques - Institutionalize simple, market based valuation techniques, advertize and educate the citizens so that they are able to assess their own ARV. Training the Tax Officers in market based valuation practices would be one of the important step towards dealing with this issue. These valuation techniques should be simple and legally and technically defensible. They should be advertised and the citizens educated through pamphlets and documents, so that it is possible for the citizens themselves to assess the ARV of their own properties.

4.4 RECOMMENDATIONS FOR TRAINING AND TECHNICAL ASSISTANCE

Training and Technical Assistance is an important instrument of bringing about reform in regulatory, institutional and technical areas. It must, however, be accompanied by a number of complementary initiatives to achieve its reform objective. This is especially true of reform in the policy area. For instance, the policy level reforms required at the central government level, such as addressing the issues of rent control -- a politically delicate issue -- would require a high level of consensus building among the political leaders and their constituencies before any notable

change is incorporated into the system. Though the political process is internal to the government and the governed, seminars and workshops could be useful instruments to guide and shape policy dialogues. National and local level policy seminars would be instrumental in informing the political leadership of the consequences of their policy decisions and provide alternative means of addressing these issues. On the other hand, in a more non-controversial arena such as automated system of maintaining property records, training and technical assistance would be more directly effective in bringing about reform. Recommendations about the specific nature and subject area of training and technical assistance initiatives required to implement the recommended reforms are presented the following sections.

4.4.i Reform of Central/State Government Policies

- i. National Seminar on Policies and Practices of Taxation and Local Government Finance. All the necessary reforms that must be addressed at the central and state government level are politically sensitive issues. However, under the environment of liberalization, an informed leadership could initiate policy dialogues and ultimately bring about a number of these reforms. A National Seminar on Policies and Practices of Taxation and Local Government Finance could be helpful in bringing these issues to the fore and beginning a policy dialogue. Such a Seminar would be designed to educate political leaders about: (a) the regressive effect of some of the current policies identified in this report; (b) the correlation between market oriented policies, local government finance and provision of basic services; (c) the importance of devolution of decision making powers about local concerns to the local governments; and (d) the taxation systems in other economies presented through case studies. Participants in such seminars would be key decision makers and senior executives from the central and state governments responsible for formulating policies.
- ii. TA to restructure regulatory framework. Subsequently, as requested, technical assistance should be provided to revise and restructure the relevant policies, laws, and regulatory framework to remove or reduce the impact of bottlenecks on the Property Taxation System.

4.4.ii. Reform of Local Government Policies

A number of training and technical assistance initiatives are required to draw local policy makers and bureaucrats into a policy dialogue to address the inefficiencies in Property Taxation System arising out of local government policies. These include:

- i. Seminar on Policies and Practices of Property Taxation and Local Action Plans. A city-specific seminar on Policies and Practices of Property Taxation to illustrate: (a) the importance of Property Tax to municipal finance and provision of basic services, (b) the regressive effect of some of the current policies, and (c) the importance of adopting market based policies. Case studies from market-based economies should be used to demonstrate: (a) the importance of establishing effective linkage between services

provided, through improved provision of services, and Property Tax, (b) alternative systems of market based valuation and assessment systems, and (c) associated gains for the local governments. Experience of the RMC in including un-authorized properties in the tax base should be carefully documented and presented as a case study to other local governments such as Baroda and Mysore. The seminars should result in specific "Local Action Plans" to be implemented within an agreed time schedule. Some local reforms would be contingent upon national policy reforms. Such reforms should be identified clearly and a plan of action for local governments to lobby for such reforms should be outlined in the Local Action Plans. Participants to such seminars should be drawn from the Local Council and the senior executives from the Municipal Corporations.

- ii. Technical Assistance to implement the "Local Action Plans". Specific technical assistance should be provided, where necessary, to the local government to restructure and adapt old policies and formulate new ones where required.

4.4.iii Institutional and Administrative Reform

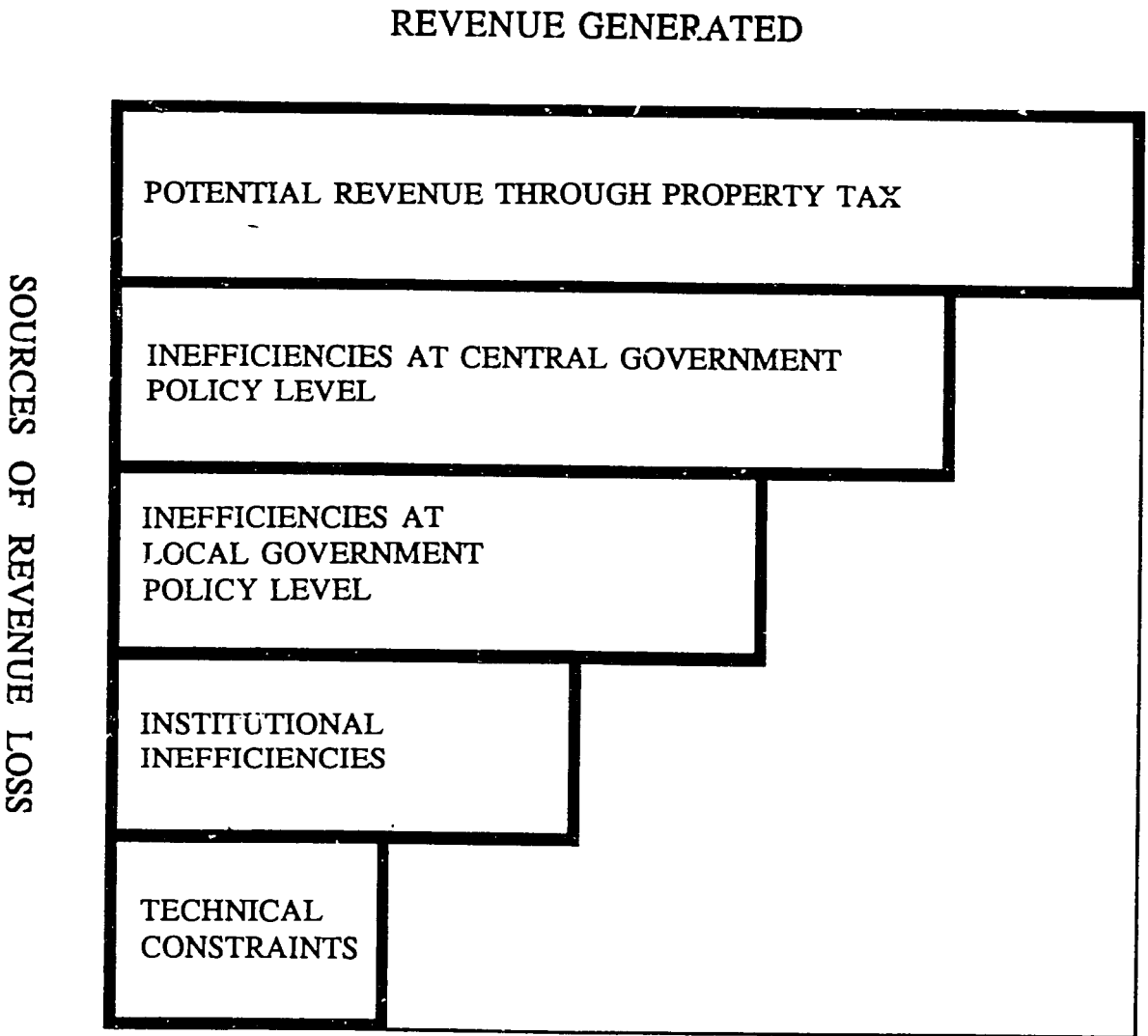
- i. Central Land and Property Information System. Cities will require institutional capacity-building in the City Survey Office to help establish a Central Land and Property Information Unit. Assistance would be required in areas such as: (a) practices and procedures of institutional coordination, (b) improved survey techniques, (c) improved and automated systems of recording and maintenance of records, (d) digitization of existing maps and improved mapping techniques, and (f) an integrated system for recording fiscal, legal, and mapping information within GIS (Geographic Information Systems) modules. All the relevant officers at the City Survey Offices should be trained regularly in current methods of performing their tasks.
- ii. Seminars and workshops to improve administrative performance and address systemic corruption. Seminars should be held for senior management of institutions involved in Land Information as well as Property Taxation System to address the issues of: (a) institutional incentives to correct administrative laxity and systemic corruption, (b) lack of institutional coordination, (c) complex institutional procedures, and (d) other administrative inefficiencies. Output from such seminars should include programs of simple reforms that senior managers believe could be implemented.
- iii. Technical Assistance for simplifying procedures and associated training. Technical assistance should be provided to the relevant institution, such as the Municipal Corporations and the City Survey Office in simplifying existing procedures. Such reform must be accompanied by training for the relevant officers in the new procedures. Each institution must also establish regular system of training officers in the modified and new practices and procedures.
- iv. A Seminar on Overview of Property Taxation System. A seminar presenting an overview of the Property Taxation System and its important elements would be helpful as a first step to initiate institutional reforms. Such a seminar should include detailed discussions

on the: (a) advantages of Property Taxation and implementation strategies; (b) various components of the system -- identification, market based valuation and assessment, rate setting, collection and enforcement; (c) advantages of market based system of valuation; and (d) importance and usage of comprehensive land information system. Preferably, all the points should be illustrated through case studies and comparisons with the existing systems in the cities represented in the seminar.

- v. Seminar/Study Tours -- Sharing Experiences and Technical Assistance. In particular areas of administration of Property Taxation System, one or two of the cities have initiated reform measures that are useful. Experiences of neighboring cities can often be more persuasive than foreign injection of technical assistance. Creating a platform for such exchanges through seminars and workshops would be an useful measure for affecting reform. Such exchanges would potentially lead to exchange of technical assistance from the cities that have implemented a reform to the cities that are interested in it. The potential areas identified in this study for such an exchange are: (a) decentralization of property tax administration -- where Rajkot could learn from the decentralized system of administration in Baroda and Mysore. Rajkot could share its experience with the other cities in areas, such as: (b) usage of private couriers to distribute bills, (c) inclusion of unauthorized properties in the tax base, and (d) self-declaration procedures for identification of properties and valuation.
- vi. Technical Assistance for Developing Market-Based Valuation Guidelines. One of the most important areas in which technical assistance would be required is to develop and establish simple, transparent and market oriented guidelines for valuation.
- vii. Technical Assistance in Establishing a Real Estate Market Information System. To establish market-based valuation techniques, the key initiative required would be to establish a system of monitoring real estate markets and maintaining a database on current values and trends. Such a system could be established in the Tax Division of the Corporation or the City Survey Offices responsible for maintaining the Central Land and Property Information System. Technical assistance and associated training should be provided to the relevant institution in establishing the Real Estate market Information System.

4.4.iv Technical Reform

- i. Training on improved Cadastral Surveying Techniques. Training should be provided to the Surveyors at the City Survey Office in mass and individual property survey techniques. When the policy decision on inclusion of unauthorized properties has been resolved, mass surveying techniques, such as aerial surveys will become important for collecting information quickly on such properties.
- ii. GIS Mapping and Information System. Intensive training and technical assistance to Technical Officers will be required for establishing a fully working GIS Mapping and Information System.



**PRINCIPAL SOURCES OF REVENUE LOSS
IN THE PROPERTY TAXATION SYSTEM**

Figure 4.4.i

- iii. Institutionalize Training of Tax Officers in the Corporations in the Market Based System of Valuation. Subsequently, the Tax Officers of the Corporations should be trained in the new methods of valuation. Such training should become institutionalized in the Corporations. It would, therefore, be important to train future trainers in the new methods of valuation.
- iv. Training to Obtain and Record Real Estate Market Information. Specialized training to conduct surveys of real estate markets -- to determine market information from informal sources such as the brokers, real estate agents, buyers and sellers -- should be provided to the new Real Estate Information Unit. Such training should also address methods of data maintenance.
- v. Training and Technical Assistance for Automation of the Property Taxation System. Some municipalities, such as Baroda, are in the process of computerization of the taxation system. Other municipalities, such as Rajkot, have expressed an interest in computerization of the Property Taxation System. Such Municipalities should be provided training and technical assistance in automation of the Property Taxation System.

4.4.v. Demonstration Pilot Project

A demonstration Pilot Project, incorporating all the reforms in one or two cities, would be an useful instrument in demonstrating the potential gains from an efficiently functioning Property Taxation System and Land and Property Information System. The Pilot Project would be an important tool to demonstrate how revenue losses that could be recouped by addressing: (a) inefficient national policies, (b) inefficient local government policies, (c) technical inefficiencies in the Property Taxation System, and (d) administrative inefficiencies, as illustrated in Figure 4.4.i. For this initiative to be successful, reform-minded cities, such as Rajkot, should be targeted for the Pilot. It would also be necessary that policy level inefficiencies be addressed for the Pilot Project to succeed. Reform in Property Taxation System in other cities across the nation would be, to a large extent, contingent upon the success of such Pilot Projects.

ANNEX I
WORK PROGRAM FOR THE STUDY

Detailed Work Program, as developed with USAID-RHUDO/India at the beginning of the study, is presented below:

DETAILED WORK PROGRAM AS SUBMITTED TO USAID-RHUDO/INDIA:

As per the attached scope of work, following is the work plan to execute the research project to study and analyze the current status of land information systems in three cities in India - Baroda and Rajkot in the state of Gujarat, and Mysore in the state of Karnataka.

Week 1: July 19-23

A detailed workplan will be prepared and submitted to the Urban Advisor of USAID/India. Requisite changes suggested by the Urban Advisor will be incorporated.

Upon the approval of final workplan, necessary information, letters of introduction required to gain access to the relevant officials in the three cities will be obtained from USAID/India and Ministry of Urban Development.

Preliminary data on the three municipalities will be obtained, as far as possible, before departure for field visits, from sources such as the Housing and Urban Development Corporation (HUDCO), a major financial lender to local governments.

Week 2: July 26-31

This week will be spent gathering data in the city of Baroda. The principal task will be to interview the relevant city officials, gather data from primary and secondary source on existing land information system of the city and revenues of the property taxes, from the Baroda Municipal Corporation. Real estate agents and developers outside the municipality will be interviewed to obtain data on the market values of properties, ensure cross referencing and triangulation of the data.

Week 3: August 2-6

The data on Baroda will be analyzed and synthesized to answer the questions outlined in the research framework for this study. A draft report on Baroda will be prepared and submitted to the Advisor at USAID/India for comments and suggestions.

Any type of data that is felt missing will be identified and incorporated in the list of data requirements. This will enable a more thorough data collection from the subsequent locations. Also, due to the proximity of Rajkot to Baroda any missing information may be collected from Baroda during the field visit to Rajkot.

Week 4 & 5: August 9-21

These two weeks will be spent in data collection in the cities of Rajkot and Mysore. As in Baroda, relevant city officials will be interviewed. Data from primary and secondary sources will be gathered from the Rajkot Municipal Corporation and Mysore Municipal Corporation respectively. Real estate agents and developers will be interviewed to obtain market values of the properties.

Week 6 & 7: August 23- May 3

The data collected from all the three cities will be synthesized and analyzed according to the frame work of research. A draft report will be prepared and submitted to the advisor for review and comment.

Week 8 & 9: September 6-15

Comments and suggestions from the advisor will be incorporated into the draft report. The final report of this research effort will be prepared and presented to USAID/India. One copy of the final report will be provided to the Office of Housing and Urban Programs, A.I.D. Washington, in the format required by the office.

WORK PROGRAM

Table I.1.i Detailed Work Program for the Study

| <i>WEEK</i> | <i>DATES</i> | <i>DAYS</i> | <i>ACTIVITY</i> |
|-------------|---|-------------|--|
| 0 and 1 | July 14-16 July 19-23 | 8 | <ul style="list-style-type: none"> . Finalize workplan with Urban Advisor, USAID/India; . Gather list of officials, letters of introduction and relevant information prior to field visit; . Collect preliminary data on the three cities, prior to field visits; |
| 2 | July 26-31 | 7 | <ul style="list-style-type: none"> . Field visit to Baroda; |
| 3 | August 2-6 | 5 | <ul style="list-style-type: none"> . Prepare Draft Report on Baroda and submit to USAID/India for review and comments. . Identify additional information required, and if necessary revise the research framework, for subsequent field visits; |
| 4 | August 9-14 | 6 | <ul style="list-style-type: none"> . Field visit to Rajkot; |
| 5 | August 16-21 | 6 | <ul style="list-style-type: none"> . Field visit to Mysore; |
| 6 and 7 | August 23-27 August 30- September 3 | 10 | <ul style="list-style-type: none"> . Synthesize and analyze the data gathered from the field visits; . Prepare draft report and submit to advisor USAID/India for review and comments; |
| 8 | September 6-10 | 5 | <ul style="list-style-type: none"> . Incorporate the comments in the draft report; . Prepare and submit the final report to USAID/India; . Provide a copy of the final report to Office of Housing and Urban Programs, AID Washington. |

ANNEX II

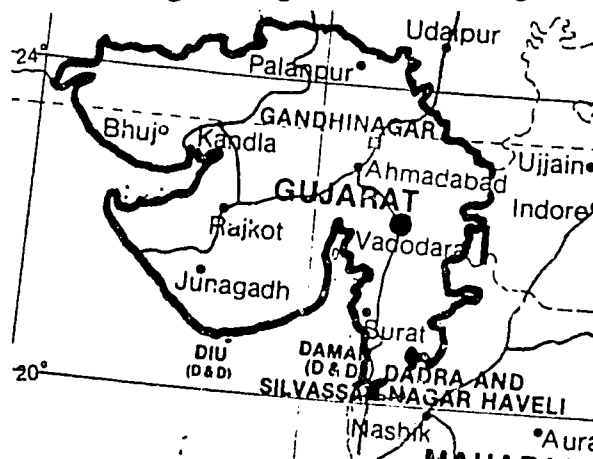
THE CITY OF BARODA

II.1 BACKGROUND

Although the city has been renamed its ancient traditional name - 'Vadodara', in the recent past, most people still know it as 'Baroda' -- as christened by the British during the Raj. Prior to independence it was the capital of the princely Gaekwad Estate. It is situated in the state of Gujarat (Figure II.1.i and ii). Till 1955, Gujarat was part of the larger Maharashtra region. Subsequently it has gained independent status. However, the Bombay Provincial Municipal Corporation Act (BPMC Act), 1949, continues to be the governing act for the local governments in Gujarat.



II.1.i State of Gujarat



II.1.ii City of Baroda in Gujarat

The city of Baroda encompasses 108.22 square kilometer. The officially estimated population is 1.168 million people, with approximately 0.22 million households. Like other urban agglomerations in India, Baroda has its share of unauthorized and squatter settlements, pushing the total population well over the official estimates.

The Land Information System and the Property Taxation System in Baroda, are maintained and administered by different levels of governments. The Land Information System is maintained by the state government - Government of Gujarat. Land records are found in the City Survey Office and the Sub-registrar's Office - divisions of the Office of District Collectorate of Baroda. Vadodara Urban Development Authority, another state government body, is yet another institution involved in land management in the area of Baroda Urban Agglomeration, where some land related . The Property Taxation System in Baroda is administered solely by the local government -- the Baroda Municipal Corporation (BMC), within the city of Baroda.

For the purposes of administration of Property Tax and provision of other services the city of Baroda has been divided into ten Wards (Figure II.1.iii). There is one Ward Office located in each ward. Such decentralization of municipal functions has been instituted in an effort at better administration of services and revenue collection, and to ensure easier access for citizens to their local government for payment of dues and registering grievances.

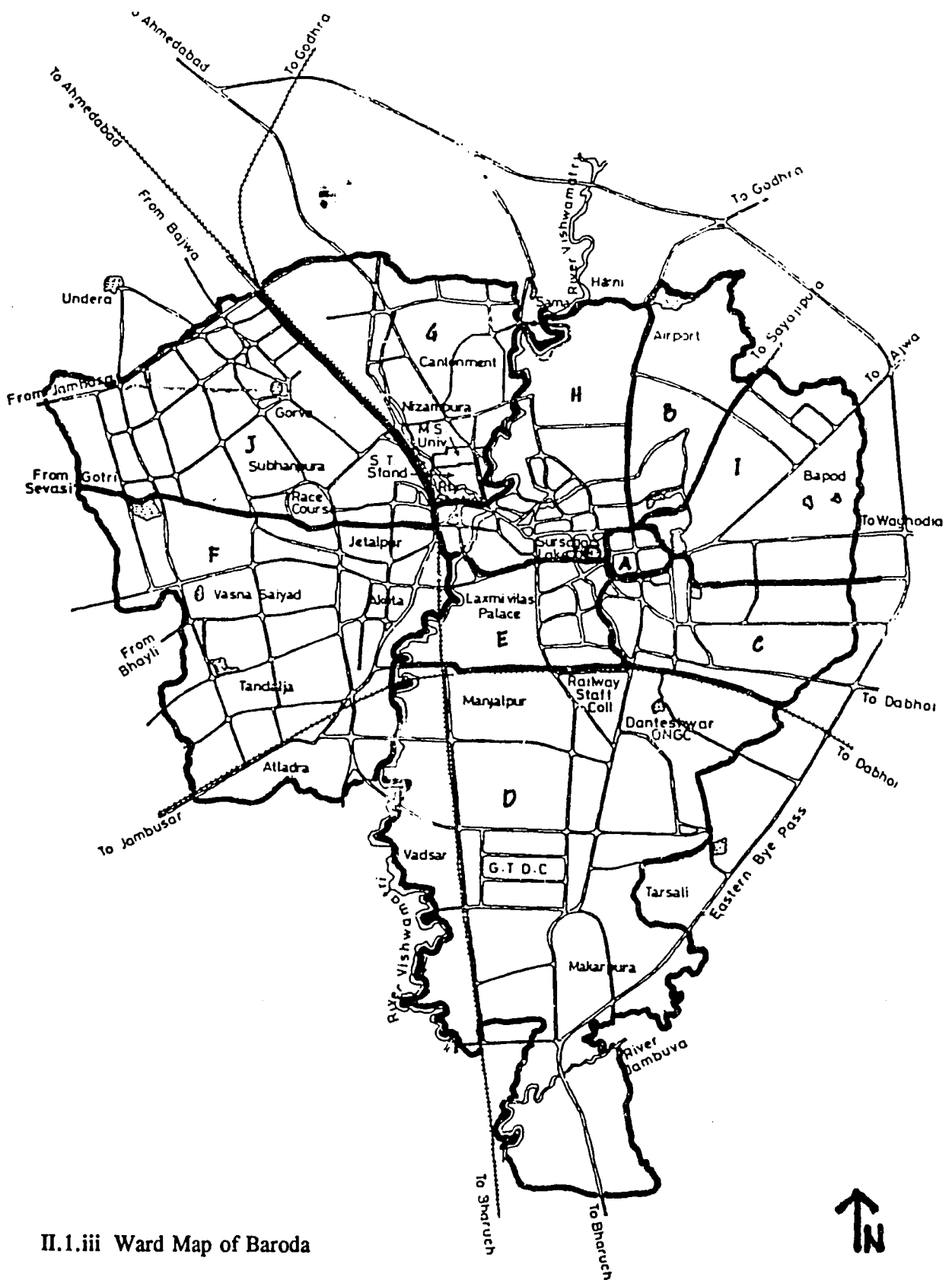
II.2 THE LAND INFORMATION SYSTEM

II.2.1 Institutions

A gamut of state and local government institutions are involved in management of land and property in the city. Each of these organizations have their own separate functions with respect to land management within the city and they operate as independent bodies. These institutions are:

- a. The Sub-registrar's Office - a division of the District Collector's Office under the purview of the State Government;
- b. The City Survey Office - also a division of the District Collector's Office;
- c. The Urban Land Ceiling Office - administered by the state government;
- d. Vadodara Urban Development Authority (VUDA) -administered by the state government; and
- e. Baroda Municipal Corporation (BMC) - the local government for the city of Baroda.

a. The Sub-registrar's Office: The Sub-registrar's Office is responsible for registration and records of all properties that have undergone a transfer of ownership either by sub-division or by sale of the property. This office does not maintain any record of properties that have never undergone any such transaction or subdivision. Their records, therefore, do not present a complete and comprehensive list of all properties in the city. A registered '*sale deed*' from this office is one of the most important documents for proof of ownership of a property.



II.1.iii Ward Map of Baroda

b. The City Survey Office: A division of the District Collectorate of Baroda, the City Survey Office maintains the survey maps and Property Cards for the city of Baroda. This office is solely responsible for maintaining records of all registered land in the city, titles of ownership, and for maintaining and updating the survey maps for the City of Baroda. It does not maintain any information on any built structure on these plots of land. Nor is any information on unauthorized plots of land available at this office.

c. The Urban Land Ceiling Office: The principal function of this office is to implement the Urban Land Ceiling and Regulation Act of 1976¹⁰, in Baroda. The land ownership ceiling specified for a medium sized city such as Baroda is a maximum of 1500 square meters for one property owner. The office however may make exemptions and variations as per its discretion within the statutory framework. The Urban Land Ceiling Certificate issued by this office is a obligatory document for obtaining building permission, and registering change of ownership with the Sub-registrar's Office and the Corporation.

d. Vadodara Urban Development Authority (VUDA): Unlike the institutions discussed above VUDA has a specific land management and planning function. VUDA is responsible for preparing Comprehensive Development Plans for the Baroda Urban Agglomeration. It has also prepared the 'General Development Control Regulations (GDCR)' as a tool for growth management in the city. Within the jurisdiction of BMC -- the Baroda City, any development, whether undertaken by private or public organizations, must adhere to guidelines laid out in the GDCR. Within the limits of Baroda Urban Agglomeration but outside the jurisdiction of the Corporation, VUDA acquires private land and develops what are typically known as 'Town Planning' or T.P. schemes. With respect to cadastral mapping information, VUDA only maintains general land use maps of the city. This map does not incorporate any plot by plot information of land in the city.

e. Baroda Municipal Corporation (BMC): The Corporation maintains records of land and property ownership for the purpose of tax administration. This record pertains to authorized properties in the city only. In a city with considerable unauthorized construction, these records do not represent comprehensive information on land and property in the city. A copy of this records is important in the event of litigation as proof of ownership. Properties which sometimes do not appear in the records of the Sub-registrar's Office, or the City Survey Office, might well appear in the BMC records as some of these households are often regular tax payers.

¹⁰ The Urban Land Ceiling and Regulation Act of 1976 (ULCA) imposes a ceiling on the amount of vacant land that can be owned by an individual. An attempt to distribute land more equitably in the urban areas, any individual owning land in excess of the ceiling is expected to sell the land to the government for not more than Rs.10.00 per square meter, significantly less than the market price. The land thus acquired was meant for affordable housing to be built by the government. Of the estimated 166,000 hectares of 'excess' land, the government had acquired only 3,852 hectares and constructed housing on 621 hectares by 1987. The majority of this housing was not aimed at low-income groups. [Source: "Housing -- Enabling Markets to Work", The World Bank, 1993]

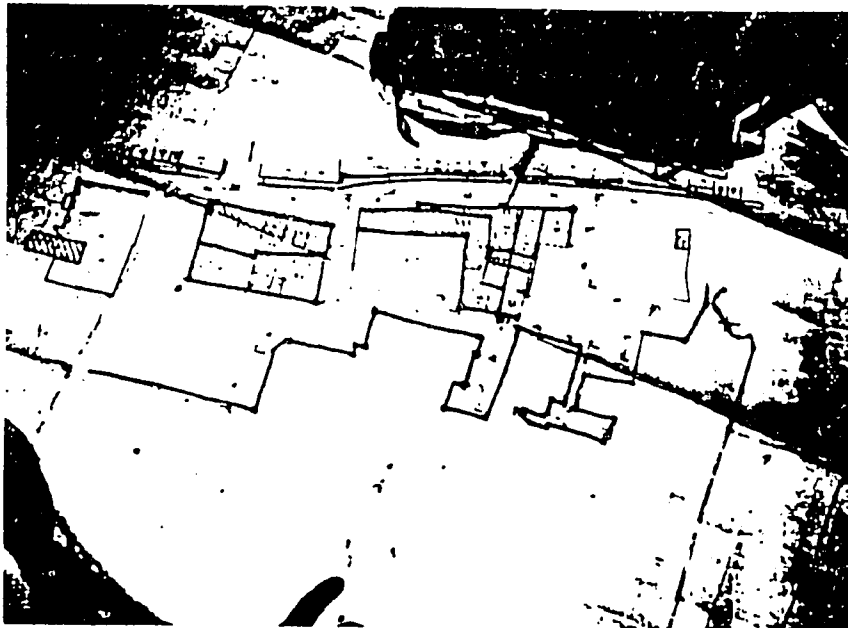
II.2.ii Basic maps

Different kinds of maps are available at:

- a. VUDA,
- b. City Survey Office, and
- c. Town Planning Division of BMC.

a. At VUDA: The maps available at VUDA are mainly land use maps of the city, created for the purpose of developing Comprehensive Development Plans for the Baroda Urban Agglomeration. These maps do not show any information on specific properties of the city.

b. At City Survey Office: No single set of comprehensive maps were available at the City Survey Office. But large survey maps of registered plots of land did exist, one for each *Tikka*. *Tikka* is a term used by the surveyors for a particular type of survey map. Each quarter of the city is subdivided into approximately thirty *tikkas*. A *tikka* consists of up to a hundred plots. There is one map for every *Tikka*. These maps are old and torn, held together only by the cloth they are mounted on. The information on them is also not consistently current (Figure II.2.i).



II.2.i Map of one 'tikka'

An extensive survey carried out nearly four decades ago -- around 1955 when Gujarat became an independent state, forms the basis of these maps. Subsequently these have been updated on a plot by plot basis, when the plots have been subdivided, or when new areas have been developed by public authorities such as the Baroda Municipal Corporation, or independent

private developers, and when such changes have been brought to the attention of the office. These maps do not incorporate any information on unauthorized ownership of land and properties.¹⁰

c. The Town Planning Division of BMC: A very old map of the entire city of Baroda, called 'Revenue Map', is available at the Town Planning Division of BMC. Though it shows detailed demarcations of properties, it is as old and dated as the *tikka* maps at the City Survey Office. Despite its name it is not used for taxation purposes.

II.2.iii System of Maintaining Land Records:

There are three institutions where different types of land records are found in Baroda:

- a. The Sub-registrar's Office -- maintains the Land Registration Certificate and the certified *Sale Deed*;
- b. The City Survey Office -- maintains the 'Property Card'; and
- c. The BMC -- maintains property records in tax assessment books.

a. The Sub-Registrar's Office: The 'Registered Sale Deed' or the 'Land Registrations Certificate' issued by the Sub-Registrar's office is the most important document of proof of ownership. These are, however, issued only after a property has been registered at this office. This is significant, since not all properties are registered with this office due to high cost of official transaction. The issue of official costs of transaction is discussed in the following sections and the main body of this report.

b. At City Survey Office: Detailed data on titles, ownership, transfers and relevant dates, are maintained meticulously in a document called the '*Property Card*' (Figure II.2.ii). This Property Card pertains to ownership of land only and not any built super-structure on the plots.

Around 1954-55 when the greater Maharashtra state was divided into the state of Maharashtra and the State of Gujarat, all owners of properties were given a Property Card each. The Property Card is the most important legal document for the purposes of proof of property ownership in Baroda. Although other more traditional documents, such as the '*sanad*' and

¹⁰ Two types of properties come under the under the definition of unauthorized properties. The properties in the first category are usually visually indistinguishable from legally occupied properties, as they are made of permanent materials, such as brick and concrete and are laid out systematically with space for access roads etc. Shelters, usually constructed out of impermanent materials, in slums and squatter settlements comprise the second type of unauthorized properties. None of these properties own the land on which they are situated.

According to the City Survey officials, information on slums and squatter settlements are available at the District Collector's Office. These are principally earmarked for demolition.

'*Satbar Utara*'¹¹ etc. exist, these documents are used as supporting documents only, in case of litigations, or in case the information on the card is not entirely legible¹² or precise. The Property Cards are maintained and kept at the City Survey Office itself. The owners of particular properties may obtain copies of their Property Cards upon request, at a minimum charge of Rs. 25.00.

For the purposes of maintaining land records, the City of Baroda has been divided into four parts. Four 'Superintendents' - one for each quarter of the city, two officers and thirty two maintenance officers - the '*talathis*' -- eight for each quarter of the city, constitutes the administrative body of the City Survey Office. Each superintendent maintains records on around 40,000 plots of land, with each maintenance officer responsible for around 5000 plots.

One Property Card pertains to one plot of land (Figure II.2.ii). It comprises of the following information:

- a. a unique number assigned to each card,
- b. the location of the plot,
- c. the names of the owners since 1955,
- d. the dates of demise of each of the owners, if applicable,
- e. the heir to the property,
- f. the dates of transfer of ownership
- g. the instruments of transfer of ownership - through inheritance or purchase,
- h. name of current owner, and
- i. any other relevant information.

In case of joint-ownership, the names of all the owners are recorded on the card. One file is maintained for each card with all the relevant documents as proof of transfer of ownership -- such as death certificate of previous owner, the *sanad*, affidavits of gift of the plot, photocopy of sale agreement on Government of India stamp paper duly notarized, etc.

This system though labor intensive is fairly well organized. The cards give all the details on land ownership at a glance. These cards are filed according to the *tikka* numbers and are easily accessible. In the course of reform, the automation of this system should be addressed only when the land information system is also required to maintain comprehensive information on the superstructure, infrastructure etc. on the property. For this purpose major administrative reform will be required where all the relevant organizations - VUDA, the BMC, the City Survey Office, the Sub-registrar's office, and the Urban Land Ceiling Office interface to maintain and draw upon a comprehensive information system.

¹¹ The *Sanad* and the *Satbar-Utara* are the traditional title deeds of land in rural areas. As the rural land is converted to urban use these deeds are replaced by the Property Cards, Sale Deeds, or Income Rent Certificates.

¹² The Property Cards are maintained by hand and, therefore, can be often illegible.

c. The BMC: Property record at the Corporation mainly consists of the entry into the assessment register. As this enlists the person liable for payment of taxes, it is to the interest of the previous owner -- the seller, to register change of ownership. As considerable number of properties are not on the tax roll transfer of title of such properties are not registered with the Corporation at all.

II.2.iv System of Property Registration

Transfer of ownership must be registered at three institutions separately by the property owner. These are:

- a. The Sub-Registrar's Office,
- b. The City Survey Office, and
- c. The Baroda Municipal Corporation.

The ownership of a parcel of land is changed under any of the following four conditions: (i) the death of present owner, (ii) division of the property, (iii) the sale of land, and (iv) in case of government acquisition of private property. The responsibility of declaring change in status of ownership rests on the previous owner. The penalty of not declaring the change in ownership is minimal.

a. The procedure at the Sub-Registrar's Office: The Sub-registrar's Office is the principal institutions responsible for registration of properties. The procedure for registering transfer of titles is lengthy and complex. The property owner must submit an application for change of ownership accompanied by documents such as:

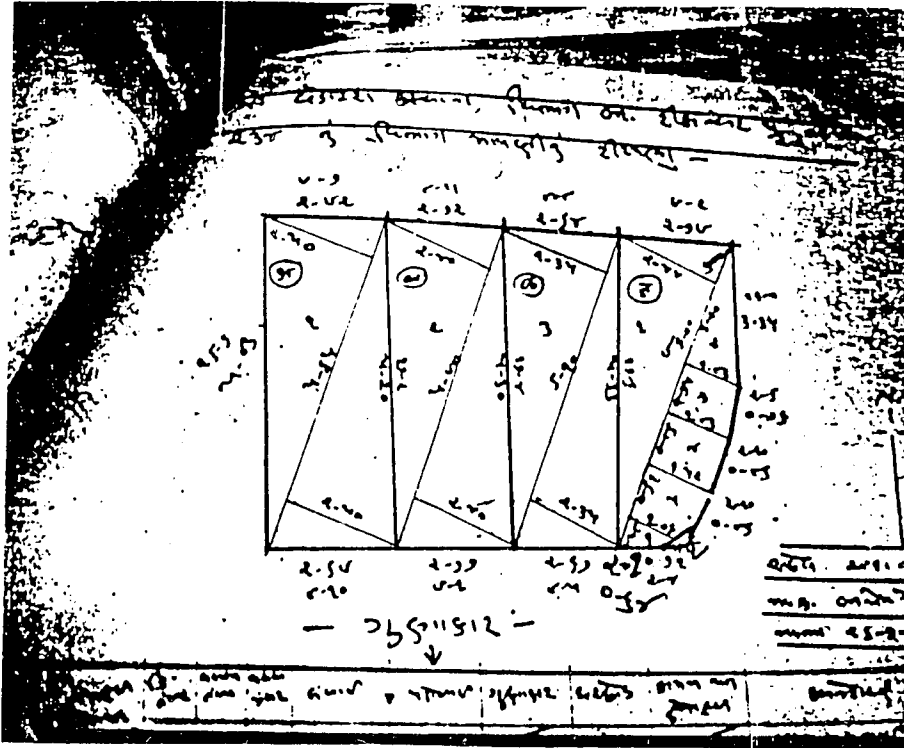
- i. Sale Agreement, in case of sale of property. This agreement is prepared on Government of India stamp paper of the value of 12% of the amount of transaction - the '*stamp duty*'. This deed includes all the particulars of the property as well as signatures of two witnesses and thumb prints of the seller and the purchaser;
- ii. Registration fee of around 1.5% of the value of property;
- iii. 'Tax Paid' certificate from the Corporation -- as proof of payment of Property Tax;
- iv. certificate from the Urban Land ceiling Department;
- v. two affidavits as proof of identification of the concerned parties; and
- vi. any other document as required by the office.

Upon verification of facts by field visits, the transfer of title is registered.

b. The procedure at the City Survey Office: An elaborate system exists for the registering transfer of ownership at the City Survey Office:

- i. In the case of death of the present owner -- known as *Varsai*:
 - . The heir to the property makes an application for 'change of record' at the City Survey Office;
 - . The date of application, name etc. are recorded at the office, duly filled acknowledgement form of receipt of application is sent to the applicant, requesting the applicant to report to the office within four to seven days with relevant documents. The documents required are:
 - the death certificate of the deceased,
 - an affidavit of relation to the previous owner,
 - *sanad* or the *satbar* -- the traditional title deeds to properties; and
 - any other document requested by the office.
 - . After the applicant produces the requisite documents, the officer can ask for additional documents in case of any doubt about the identity of the applicant etc. The doubtful cases are verified by field visit by the maintenance officer;
 - . Once the officer is satisfied, Land revenue code notice #135/D - a '*Hakkami*', addressed to the deceased, is sent to the relevant property and to known relatives. A thirty days time period is allowed for any objections to be raised by concerned parties against the transfer of ownership to the applicant;
 - . If there is no objection, the property is registered in the name of the applicant, in the Property Card. In non-controversial cases the entire process is supposed to take forty days. In case of objections the maintenance officer may arbitrate, or the case can be filed in the court of law.
- ii. In case of division of property: In the event of division of property between two or more persons, similar procedure is followed. In such cases the maintenance officer often conducts a survey to ascertain the correct boundaries and areas, and records it on the new Property Cards for each of the new owners (Figure II.2.iii).
- iii. In case of sale of property: In case of case of transfer of ownership through sale, the procedure is similar to the one stated above. A few additional documents are required, such as a photocopy of the sale agreement on Government of India stamp papers purchased at 10% of the price of property as declared in the sale agreement. This is known as the '*Stamp Duty*'.

This entire process has an elaborate system of files, records and forms to filled out by the office and the applicant at each stage - often too complicated for most of the citizens. Just outside the office rooms of the City Survey Office, in the shaded verandas sit a few people with their own desks, who are well versed in these procedures, forms and other requirements. These entrepreneurs on an informal yet regular basis, help the applicants with their forms -- for a charge.



II.2.iii Division lines of a property as laid out by the City Survey Office

c. The procedure at Baroda Municipal Corporation: Change of property record at the Corporation requires similar documents as the City Survey Office. From the property owners point of view, registration of transfer with the Corporation is important as it gives them legitimate access to municipal services. Easier access to municipal services through informal channels however, removes the incentive for many property owners registering change of ownership with the Corporation, and for payment of Property Tax.

II.2.vi Interface Between the Land Information System and Taxation System

Since the two systems are administered by two different authorities at two different levels of government, there is no direct transfer of information between the two. The onus of informing any change in status of land and property, to both authorities, rests with the owner. The Property

II.3 THE URBAN PROPERTY TAXATION SYSTEM

The Property Taxation System in the city is administered by the Baroda Municipal Corporation. BMC is a large municipal Corporation with 14,000 employees, responsible for providing many basic services to the city of Baroda (Figure). The Bombay Provincial Municipal Corporations Act (BPMC Act), 1949, is the governing act of the Corporation.

II.3.i Source of Local Government Finance

The Octroi and the Property Tax are the two principal sources of revenue for the local government. In FY 1990-91, Property Tax accounted for 23.9% of total receipts. In FY 1991-92 and FY 1992-93, Property Tax accounted for 26.66% and 28.1% of total receipts respectively (Table II.3.i).

Table II.3.i Sources of Local Government Finance - BMC. (Rs. in millions)

| Source of income | | 1990-91 | | 1991-92 | | 1992-93 | |
|------------------|---------------------|----------|------|----------|------|---------|------|
| | | Rs.(Mil) | % | Rs.(Mil) | % | Rs(Mil) | % |
| 1 | Octroi | 282.00 | 52.4 | 351.69 | 49.8 | 375.47 | 47.6 |
| 2-i | General Tax | 64.36 | | 107.71 | | 118.65 | |
| 2-ii | Water Tax & charges | 39.23 | | 53.34 | | 63.21 | |
| 2-iii | Conservancy Tax | 25.15 | | 26.87 | | 40.21 | |
| | Total-Property Tax | 128.74 | 23.9 | 187.92 | 26.6 | 222.07 | 28.1 |
| 3 | Non-tax Rev. | 56.55 | 10.5 | 75.62 | 10.7 | 87.55 | 11.1 |
| 4 | Govt. Transfers | 71.11 | 13.2 | 90.17 | 12.8 | 1032.23 | 12.8 |
| | TOTAL | 538.42 | 100 | 705.42 | 100 | 788.32 | 100 |

Source: Baroda Municipal Corporation records.

In addition to taxes, the local government imposes a variety of fees for the use of public facilities and services (such as license fees for shops and industries, land rent, swimming pool, public hall and building, gardens, ambulances etc.). Revenue derived from this category as whole accounted for about 10.5%, 10.7%, and 11.1% in 1991, 1992, and 1993. Locally administered taxes and charges are supplemented by government grant which accounted for 13.2%, 12.8%, and 12.8% in the three financial years respectively.

taxes and charges are supplemented by government grant which accounted for 13.2%, 12.8%, and 12.8% in the three financial years respectively.

This does not present a complete list of BMC's sources of income. Other sources of income are loans, capital income from sale of properties etc. developed by the Corporation, taxes under special acts, and miscellaneous receipts.

II.3.ii Property Taxation Structure in Baroda

The Property Tax, as laid down in the BPMC Act, comprises of the following taxes, subject to exceptions, limitations and exemptions:

- a. Water Tax for providing water supply for the city;
- b. Conservancy Tax for providing and maintaining a sewage disposal system; and
- c. General Tax on the property.

Value of the property is assessed and the property owners are notified of their liability once a year. The Property Tax is administered through the Tax assessment Division and the Ward Offices located in the ten wards in the city.

Divisions within BMC involved in administration of Property Tax: The Property Tax is identified, assessed and collected through the efforts of four departments of the Corporation:

- a. The Building Permission Division of the Town Planning Division - principally responsible for the discovery of properties and sending relevant information on any new construction or alterations to properties, to the tax assessment division;
- b. The Tax Assessment Division responsible principally for valuation and assessment of properties, and maintenance of all records pertaining to Property Tax;
- c. The Electronic Data Processing Center - established since early seventies, the EDP center of the Corporation deals principally with billing and sending follow up notices for the purposes of taxation; and
- d. The Ward Offices: For the purpose of administration of municipal services the city has been divided into ten wards. There is one ward office in each ward. One of the principal responsibilities assigned to the ward offices is the collection and follow up of delinquents in their respective wards.

II.3.iii Process of Property Tax Administration

Following are the sequence of steps undertaken by the municipality in administration of Property Tax:

a. Identification:

There are three principal modes of identification of properties at BMC:

i. Direct Notification by the Owner: Statutory requirements place the onus of declaration on the owner/person liable for payment. The chapter VIII -- 'Taxation Rules' of the Baroda Provincial Municipal Corporations Act, 1949, clearly rests the onus of notification of acquisition of property, change in status of ownership of a property and any construction or alteration to the property, on the owner or person primarily liable for the payment of Property Tax. In the absence of such notification within stipulated time periods the owner or the person primarily liable for payment of taxes for the premise, continues to be liable for payment of all applicable taxes to the property as well as any other liability in terms of penalties etc. incurred during this period.

The stipulated time periods vary for different kinds of transfers of assessable premises. For instance: (a) in the event of death of the person primarily liable for the payment of the tax, the heir must notify the Corporation within a year of the demise of the former; or (b) when a new building is erected, or rebuilt and altered, or a vacant building is re-occupied, or when the use of the building is changed, the person primarily liable for the payment of taxes for the premise must notify the Corporation within fifteen days, or (c) in case of transfer of ownership of the property, the person to whom the rights have been transferred, must notify the Corporation within three months after the execution of the transfer.

ii. Notification from the Building Permission Division to the Tax Assessment division - in case of new construction or major improvements: The notification from the Building Permission Division to the Tax Assessment division within the Corporation itself is another method for identification of properties for taxation.

Upon issuing the completion certificate for a building, be it residential or commercial or other, the Building Permission Division informs the Tax Assessment Division of the various details of the property, such as -- (i) the address of the property, (ii) the name of person primarily liable for the payment of taxes, (iii) date of completion and of occupation, if applicable, (iv) the use of the building, and (v) the floor area, and cost of construction of the building. In Baroda, after the building permission has been issued the Tax Assessment Division may levy taxes in the absence of an occupation certificate or actual physical occupation.

Procedure of obtaining building permission This process is complex and acts as a deterrent to authorized construction. A property owner must obtain various documents and certificates from various institutions. An application for building permission in BMC must be accompanied by:

1. Four sets of copies of plans of the building from an architect licensed by the Corporation;
2. Architects 'Supervision Certificate'
3. Receipt of house tax;
4. Copy of the Property Card from the City Survey Office, or *sanad* or *satbar*;
5. Certificate from the Urban Land Ceiling Office;

6. Certificate of Development Charges from VUDA (This is levied at the rate of Rs.4.00 per square meter of constructed area as well as the plot area);
7. Zoning Certificate from VUDA.
8. Any other document requested by the division.

Usually a scrutiny fee and a scrutiny deposit (refundable) is charged for this process, at the rate of Rs. 1.00 per square meter of the plot area, and at the rate of Rs 2.50 per square meter of the plinth area, respectively. Due to a recent Supreme Court of India stay order both these fees are not being charged presently.

These documents are then sent for clearance to the traffic department. The building activity permitted follow the guidelines in the Comprehensive Development Plan and GDCR developed by VUDA. *The official time required to issue a building permission is fifteen to twenty days. By all accounts this is rarely the case.* Once the building permission is issued construction may begin. During construction the owner must have the building inspected by building inspectors from the Corporation. Following the final inspection, a completion certificate is issued.

iii. Revision Assessment: The third mode of identification of properties is the 'Revision Assessment' effort. During Revision Assessment every four years a revaluation of all registered properties in Baroda is undertaken by the municipality once every four years. Till now discovery of properties not already on the tax roll, is on ad-hoc basis rather than an integral objective of this effort. If discovery of properties were to be incorporated as an intrinsic component of this effort, it could potentially be an important tool for identification of properties for the Property Tax roll.

b. Valuation:

The Property Tax is assessed on the basis of *Annual Rental Value (ARV)* of the properties. The Tax Assessment division of the Corporation is principally responsible for valuation of the properties.

No written guidelines exist for the valuation of the properties. The only guidelines present in the BPMC Act, 1949, is that the properties are *'to be valued as per the rent due in respect of the property'*. The rules and regulations stated in the act requires the person liable for payment of the tax, to furnish all the information pertaining to the construction of the house - its construction cost area etc. In reality, however, the properties are valued as per the assessment officers' judgement and knowledge of rental values in particular localities. The assessment of the property also differs on the basis of its use. A building used for commercial purposes, is therefore, valued differently than a residential building.

Therefore, the *'Ratable Value'* of a property is assessed on the basis of, either: (a) the actual rent the current tenant is paying as stated in the rent agreement, or (b) judgement of the assessment officer. The Property Tax is levied per household, per kitchen, and not per property. This distinction is important from the point of view of tax administration. Often, even in seemingly extended families, economic division between siblings or other relatives exist.

Therefore, separate family units (i.e. separate kitchens) might co-exist on property. From the Ratable Value, 10% is deducted for the maintenance of the premises. Property Tax is assessed on the balance amount.

Revision Assessment: Every four years, a survey of all the properties on the tax roll are undertaken for revaluation. The city is divided in to four quarters for this purpose. However, due to the Rent Control Act and political pressures, there is marginal change, if any, in the valuation of the properties. Again in the absence of a set of uniform and objective guidelines , the revaluation suffers from the same drawbacks of subjective valuation.

c. Assessment and Rate Setting

After the valuation is completed by the assessment officers, the assessed value of the building is entered into an 'Assessment Book'. The BPMC Act gives elaborate guidelines about the entries and maintenance of the assessment book. The entries into this book consists of the particulars of the building necessary for identification of the property, the rateable value of the property, the name of person liable for payment of the Property Tax (in case a building is not liable to be assessed - the reason for such liability), the amount of Property Tax levied, the amount charged for water and conservancy and any other comments about the status of the property.

The Property Tax Rates in Baroda comprise of:

- i. the Water Tax which is currently levied at 3% of the rateable value or Rs.90.00 whichever is higher. Since the rateable values differ according to the use of the property the water charges automatically differ for residential, commercial or industrial use. The water tax is charged per household even though there might be only one water connection for more than one household.
- ii. the Conservancy Tax is assessed as a specific percentage of the rateable value of the properties. The conservancy tax rates differ for different use of properties, as presented in Table II.3.ii.

Table II.3.ii Conservancy tax rates for different uses of properties in Baroda.

| | |
|-----|--|
| 5% | Residential buildings, school, hostels, colleges, and universities. |
| 18% | Government buildings, hostels, cinemas, theaters, boarding and lodging establishments, hospitals, tuition classes etc. |
| 15% | All industrial premises, bakeries, banks, printing press, factories and mills with less than fifteen workers. |
| 20% | Factories and mills with more than fifteen workers. |

Source: Baroda Municipal Corporation records.

- c. A General Tax, within the statutory limitations of not less than 12% and not more than 30% of the rateable value, is levied on a graduated scale as presented in Table II.3.iii.

Table II.3.iii Slabs of rateable values , number of properties and current tax rates, for all properties, in Baroda:

| | Slab of Rateable Values (in Rs.) | Current Tax Rates | No: of Properties |
|---|----------------------------------|-------------------|-------------------|
| 1 | 1 to 600 | Exemption | 58312 |
| 2 | 601 to 2000 | 13% | 82372 |
| 3 | 2001 to 5000 | 15% | 60372 |
| 4 | 5001 to 6000 | 15% | 5439 |
| 5 | 6001 to 7000 | 20% | 2519 |
| 6 | 7001 to 10000 | 25% | 3131 |
| 7 | 10001 and above | 30% | 3889 |
| | TOTAL | | 215989 |

Source: Baroda Municipal Corporation records.

The assessment of each property as per statutory requirements are published annually in the local newspaper of Baroda. The person(s) liable for payment are required to raise any objections within a stipulated time period of fifteen days. There are eight appellate officers in the Tax Assessment division who deal with these complaints. If the citizens are not satisfied with the decision of the appellate officers, they can litigate the decision of the municipality at the court of law.

d. Billing

The billing is principally dealt with by the Electronic Data Processing (EDP) Center at the Corporation every year. The bills for Property Tax are issued once every year.¹⁴ Bills are sent to the ten respective wards for distribution.

The first bill of a newly assessed property is prepared manually at the relevant ward office. The ward office subsequently sends all the relevant information to the EDP center, which prepares all the subsequent bills and notices. The bills are hand delivered from the wards to each property. A

¹⁴ Bills for water tax are issued twice a year. The EDP Center deals with only those properties with up to 3 inches diameter pipe connection for the water. Any connection larger than this is billed on a monthly basis by the ward offices themselves.

signature of receipt of the bill is obtained by the delivery peons. This is an extremely time consuming process and creates a substantial bottleneck in the system. In the absence of a reliable postal service, the bills are distributed by hand from each ward office. Since each Ward Office deals with around 2500 properties, this results in a substantial time loss in tax administration system.

e. Collection

The tax bills are usually issued to the taxpayers by the month of August every year. Within fifteen days of notification, the person liable for payment is required to raise any objection he or she might have to amount of tax levied against his/her property. Once the billing amount has been settled, the citizens are expected to pay their bills at their respective Ward Offices by the closing of the financial year -- by March 31.

Appeals and Lawsuits: In case of appeals, the appellant is expected to pay 70% of the payment due before he can take his complaints to the court. This is, however, rarely the case. Litigations vis-a-vis Property Tax assessment are many and the court has a substantial back log of around four to five years. Therefore, apart from overburdening the legal system, the litigations result in revenue loss. While under arbitration taxes and penalties are not recovered on these properties. This in itself acts as an incentive to file lawsuits and not pay taxes for as long as the case is in court, which often runs into a years.

Follow up on delinquents: In case of default, an 18% interest is charged from April 1 onwards. A notice of default is sent to the defaulters. If the liable person continues to default, a warrant is issued against the property for auction. The auction is also advertised in the news papers. The commissioner i.e. the Corporation can purchase this property at the auction for a token Rs. 1, in the absence of any buyers. This property then is usually returned after the payment of all the dues, penalties, and interests.

Delinquent properties are, however, rarely auctioned. As one of the ward office visited, only seventy seven warrants had been issued, out of Ward population of 20,000 households, till the end of July in the entire ward. Only thirty percent of these had already come forward and paid their dues. As a Ward Officer stated, it is hardly the intention of the Corporation officials to harass the citizens. Usually when the warrant is issued, due to social pressure and fear of disturbing their social reputation, the persons liable tend to pay their dues to the extent their financial situation allows. In case of severe financial hardship, the ward officers usually allow the payment of dues with interest on an instalment basis, at the discretion of the officer. This however is another source of revenue loss to the Corporation.

Revision assessment: The revaluation of over 0.2 million properties at one time is a mammoth undertaking. The drawback of undertaking such a large effort by the Corporation once every four years is that all efforts of the Tax Division gets diverted to the revaluation. Although additional personnel, usually the retired assessment officers, are hired during this period, it is still requires the resources of the Tax Division. As a result of which other functions such as tax recovery get severely disturbed.

Apart from the reduced manpower in recovery efforts in this year, the revised assessments lead to lot of objections and litigations. Till these objections are resolved the taxpayers are not liable to pay their dues. The collection of the taxes is, therefore, the lowest in every Revision Assessment year. Consequently every four years the Corporation faces a liquidity crisis and cyclical revenue growth.

As a solution, the present commissioner has proposed that the Revision Assessment take place every year but in one quarter of the city at a time. This, the Corporation hopes, will mitigate most of the drawbacks of undertaking a revaluation of over 0.2 million properties once every year.

II.3.iv Tax Recovery Performance

The Table II.3.iv presents the demands assessed, the collection and the percentage collection of Property Tax from 1989 to 1993. Although the recovery rate over the 1991-92 and 1992-93 FY is substantial, it is important to keep in mind that these figures are based on the on an under assessed tax base due to the issues identified in the next section.

Table II.3.iv Statement showing demands, collection and percentage collection of Property Tax

| | 1990-91 | 1991-92 | 1992-93 |
|-----------------------|-----------|-----------|-----------|
| Demand for the year | 130429089 | 152836391 | 169921282 |
| Collection | 64368193 | 107719390 | 118650613 |
| Percentage collection | 49.37 | 70.48 | 68.77 |
| Percentage default | 50.63 | 29.72 | 31.23 |

Source: Baroda Municipal Corporation Records.

The rate of recovery of Property Tax at the Baroda Municipal Corporation was 50% percent in the FY 1990-91, and increased to around 70% in the years 1991-92 and 1992-93. This is due to systemic problems apparent in the system, as discussed above.

Detailed analysis of constraints in the Land Information and Property Taxation System are presented in Chapters 3. General recommendations for addressing these constraints, as well as recommendations for Training and Technical Assistance are presented in Chapter 4.

ANNEX III

THE CITY OF RAJKOT

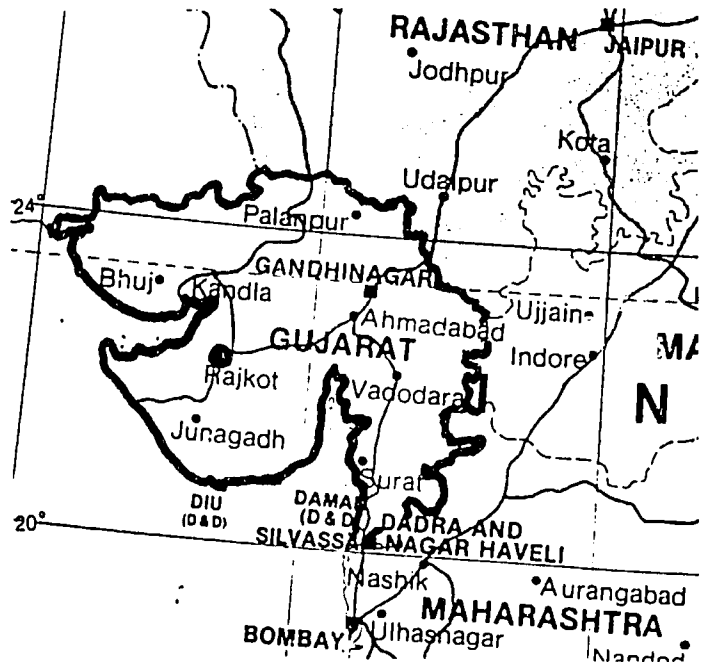
III.1 BACKGROUND

Rajkot is a medium sized town in the State of Gujarat (Figures III.1.i and III.1.ii). This town was once the capital of the princely state of Saurashtra. Mahatma Gandhi spent the early years of his life here while his father was the chief minister, or *Diwan* to the *Raja* of Saurashtra. It is the fourth largest urban agglomeration in the state. Due to its strategic location in the center of the Saurashtra region, it is one of the most important trading and industrial centers of the region. It is one of the principal manufacturers of oil based industries used in the agricultural sector. Seventy percent of the country's demand for oil based engines is met by industries in Rajkot. These machines are also exported to countries abroad.



III.1.i State of Gujarat

III.1.ii City of Rajkot in Gujarat



The Rajkot Municipal Corporation was established in 1973. Before this a 'Municipality' performed the functions of a local government due to the smaller size of the city. As in Baroda, the Bombay Provincial Municipal Corporations Act, 1949, is the governing act for the Corporation. Rajkot has a population of 0.45 million. The Corporation records show that there are a total of 10380 households. The city has its share of slums and unauthorized settlements, pushing total population over the official estimates. Unlike other cities visited for the purpose of this study, the local government makes an active effort to provide basic services to the unauthorized properties and include them in the tax roll of the city.

As in other cities the Land Information System is maintained by state government institutions. A gamut of these institutions deal with various pieces of land management. The local government merely maintains information on land and properties within its jurisdiction for taxation purposes and for developing land owned by the Corporation. The sole authority responsible for Property Tax administration in the city is the Rajkot Municipal Corporation. Outside the city area, the land earmarked for future development by the Rajkot Urban Development Authority, the rural local government bodies - the village *Panchayat*, is the administrative authority for administration of taxes.

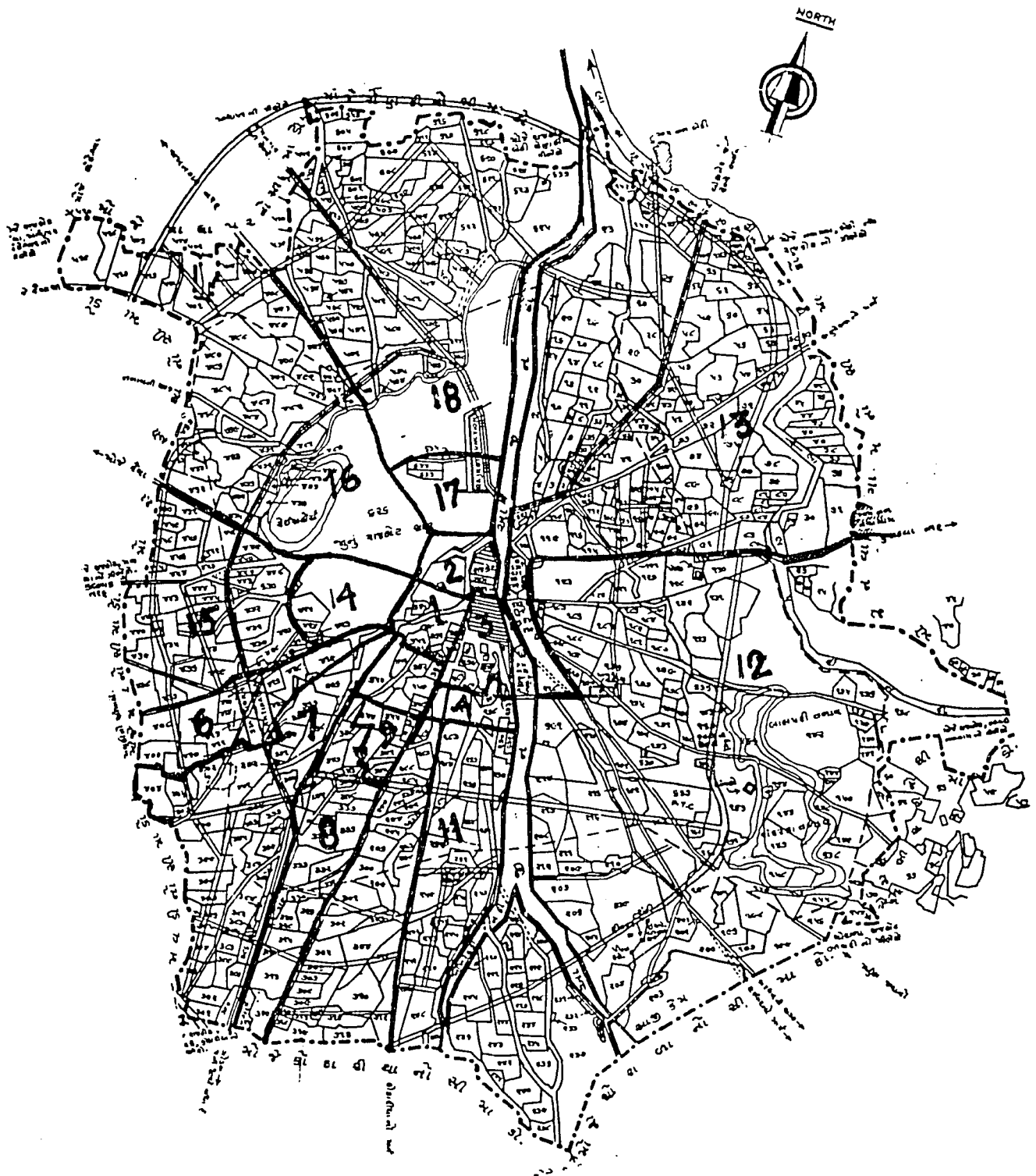
Rajkot city has been divided into 19 administrative wards (Figure III.1.iii). These divisions have been made on the basis of existing roads. Attempts have been made to ensure an approximately equal population in each ward. Unlike the other cities in this study there are no ward offices. The administration of basic services and taxation is centralized and conducted through the Corporation.

III.2 THE LAND INFORMATION SYSTEM

III.2.1 Institutions

Various state level organizations are responsible for different aspects of the land management and information system in the city of Rajkot. The Corporation also maintains information on land and property by way of maintaining the tax roll. The principal institutions involved are:

- a. The Sub-registrar's office - a division of the District Collectorate, under the jurisdiction of the state government;
- b. The City Survey Office - also a division under the District Collectorate, a state government body;
- c. The Urban Land Ceiling division - administered by the state government;
- d. The Rajkot Urban Development Authority (RUDA) - under the state government; and
- e. The Rajkot Municipal Corporation (RMC) - local government.



III.1.iii Ward map of Rajkot

a. Sub-registrar's Office: The Sub-registrar's Office maintains records of change of ownership of properties. The Sub-registrar's office does not possess any record of properties that have never undergone any transaction or sub-division. Consequently, records of properties at this office do not present a comprehensive list of the city's properties. The copy of the sale deed or a registration certificate (in the absence of any monetary transaction) associated with the property, is considered the most important proof of ownership.

b. City Survey Office: A division of the collectorate, under the District magistrate's office, its principal function is to maintain and update property cards and survey maps of Rajkot. For this purpose the city is divided into three subdivisions, under three Superintendents. These subdivisions follow the demarcation boundaries of wards. There are at an average eleven Maintenance Surveyors under each superintendent, with a total of 34 maintenance surveyors for the city.

It has a fairly complex system of maintaining the records, governed by the Anderson Manual (discussed in section III.2.iii. -- System of Maintaining Land Records) with numerous files and procedures. Nonetheless, the surveyors appeared to understand the system well. The system of maintaining Property Cards, as in Baroda, is fairly well established.

This is the only city, out of the three visited, that had a regular exchange of information with another institution also involved in the Land Information System, namely the Sub-registrar's office. Once a month the Sub-registrar's office sends a list of properties and their income-rent certificates registered that month to the City Survey Office, so that the property cards may be updated.

However, less than a complete list of properties is maintained at the City Survey Office, since the cards maintained are only those of authorized properties¹⁵. The manual method of surveying and inadequate manpower and effort further contribute to the piecemeal nature of this list.

¹⁵ The term "unauthorized properties" refers to two types of properties. The first are the properties in slums and squatter settlements. These usually constitute structures made of impermanent materials. The second type of properties, generally referred to as unauthorized properties, are usually structures that are illegal in terms of their ownership of the land, i.e. they do not possess title to the land. The superstructures, however, are constructed out of permanent materials such as brick and concrete, and are inseparable in appearance from other properties.

c. Urban Land Ceiling Office: The principal function of this office is to implement the Urban Land Ceiling Act in Rajkot¹⁶. The land ceiling specified for a medium sized city such as Rajkot is a maximum of 1500 square meters for one property owner. The office however may make exemptions and variation in accordance with its discretion within the statutory framework. The Urban Land Ceiling Certificate issued by this office is a necessary document for obtaining building permission as well as registering change of ownership with the Sub-registrar's Office as well as the Corporation.

d. Rajkot Urban Development Authority (RUDA): RUDA's principal function is to prepare Comprehensive Development Plan for the Rajkot City Agglomeration. Any development whether in Rajkot City or the urban agglomeration, must follow the guidelines laid down in this plan. RUDA also acquires and develops agricultural land outside the city, as per this plan. These developments are handed over to the village *panchayats* for administration and collection of taxes. These developments are known as 'Town Planning' or 'TP' schemes. Within the Rajkot City area, RUDA does not undertake any development, nor does it keep detailed records of individual land or property in the city. The Corporation, however, must follow these RUDA guidelines while sanctioning or undertaking any development within the city.

e. Rajkot Municipal Corporation: The Corporation maintains a record of ownership of land and properties only for the purpose of taxation. The Rajkot Municipal Corporation also maintains records on unauthorized properties which are provided basic services such as water supply by the Corporation. It is the only Corporation out of the three visited that has attempted to include unauthorized properties in its tax base. The practice of levying water and property tax on unauthorized settlements is new and not all the properties have been provided these services yet. Therefore, although this is probably a more comprehensive record of land and property ownership, as compared to other institutions or cities, it is by no means complete and comprehensive.

III.2.ii Basic maps

Two institutions prepare and maintain maps of the City:

- a. RUDA, and
- b. The City Survey Office.

a. At RUDA: The maps of Rajkot prepared at RUDA depict the broad land use of areas within the city. It is used for preparing Comprehensive Development Plans of projected growth

¹⁶ The Urban Land Ceiling and Regulation Act of 1976 (ULCA) imposes a ceiling on the amount of vacant land that can be owned by an individual. An attempt to distribute land more equitably in the urban areas, any individual owning land in excess of the ceiling is expected to sell the land to the government for not more than Rs.10.00 per square meter, significantly less than the market price. The land thus acquired was meant for affordable housing to be built by the government. Of the estimated 166,000 hectares of 'excess' land, the government had acquired only 3,852 hectares and constructed housing on 621 hectares by 1987. The majority of this housing was not aimed at low-income groups. [Source: "Housing -- Enabling Markets to Work", The World Bank, 1993]

of the city based on the existing land use. It is mandatory for the Corporation to follow the development guidelines laid down in this development plan while undertaking development of any part of the city or issuing building licenses.

The basic land use map was prepared in 1983 through a quick survey of the city. The City Survey Maps were not used as these were out of date. This land use map at RUDA has not been updated since RUDA does not maintain plot by plot information of the city's properties.

b. At City Survey Office: The principal function of this office is to prepare and maintain survey maps of the city and to maintain 'Property Cards' of all the registered properties in the city and the rural areas immediately adjacent to the city.

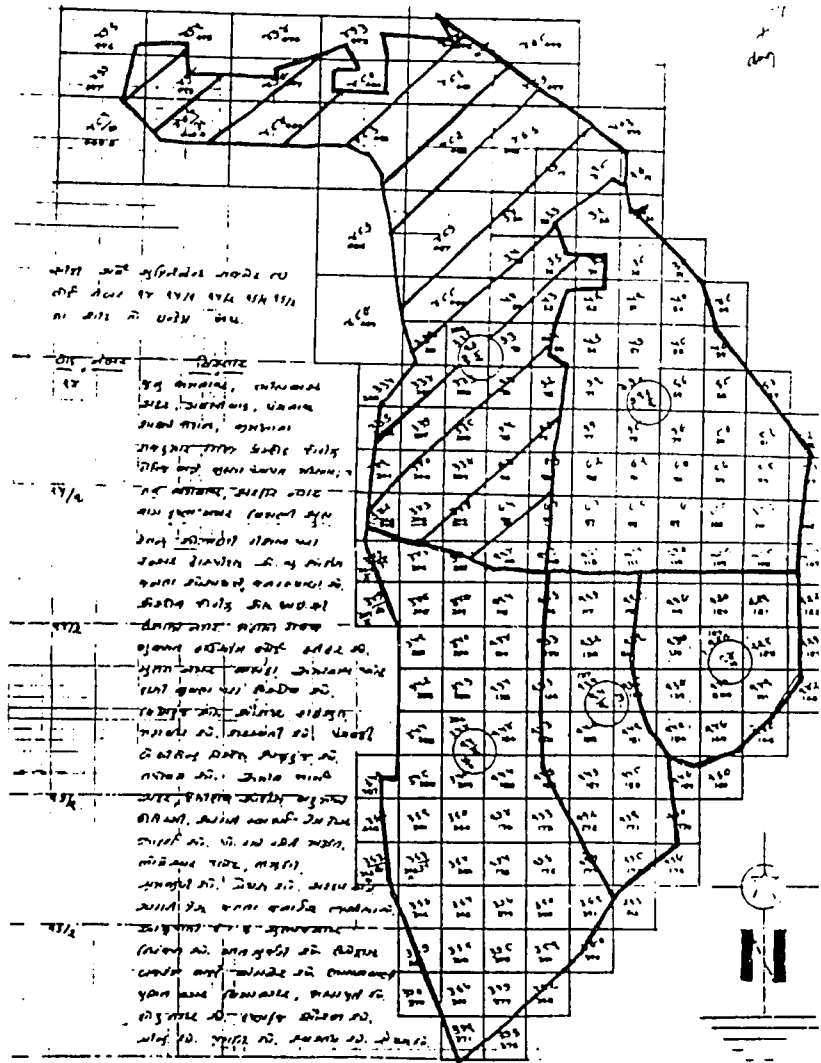
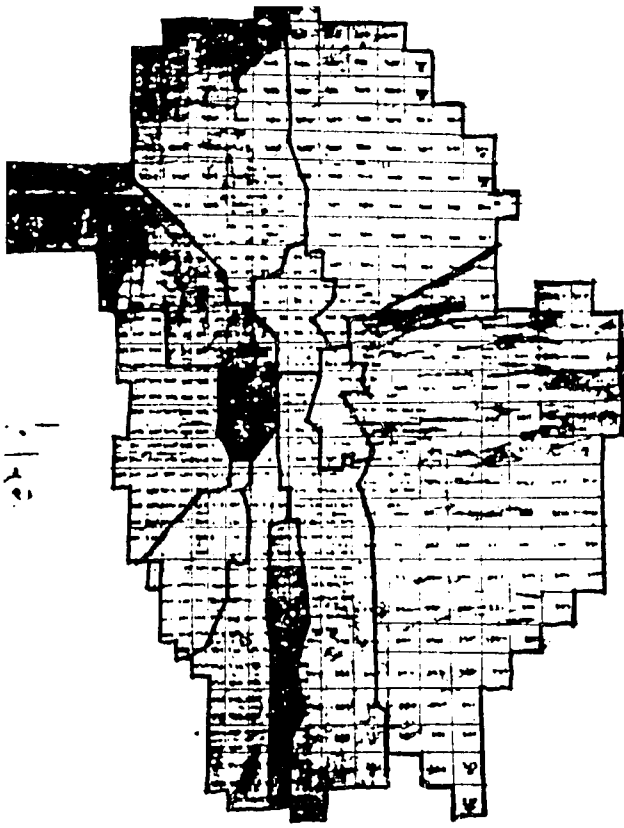
For the propose of mapping the city has been divided into three major subdivision (Figure III.2.i.) of almost equal size in terms of population, one under each City Survey Superintendent. These are further sub-divided into wards (Figure III.2.ii.). Each of these wards are divided into Plane Table Sheet Areas (Figure III.2.iii), based on the size of the survey used while conducting surveys, at the scale of 1:400 or 1:800. Each of these sheets has a unique number. The base maps were created by a three year long survey in 1968. Subsequently, any changes and subdivisions have been incorporated in copies of this map (Figure III.2.iv.). No new set of maps have been printed with these changes.

In spite of the existence of an entire office with the maintenance of property information as its principal function, these maps are far from complete due to a variety of systemic and procedural reasons. These are: (a) only the registered and authorized subdivisions are incorporated into these maps; (b) although the maintenance officers are supposed to visit at least ten properties every day, by their own accounts this rarely happens; (c) there are approximately 3500 properties under the supervision of each maintenance officer and given that they are also responsible for the maintenance of complicated array of files, records and property cards, even overlooking the lax environment of the office, maintaining up-to-date maps of the city by a plot by plot manual survey method is not entirely feasible; and (d) the manual survey method is tedious, labor intensive, and impractical for a city the size of Rajkot. This is especially true as all old and new properties must be surveyed regularly by the maintenance officers.

III.2.iii System of Maintaining Land Records

Three institutions maintain different land records for land within Rajkot:

- a. the Sub-registrar's office - maintains various documents such as the 'sale deed', Registration Index Number, the Collector's Order for land that has been converted from agricultural to non-agricultural use;
- b. the City Survey Office - maintains the 'Property Card'; and
- c. the Municipal Corporation maintains a record of property ownership for taxation purposes.

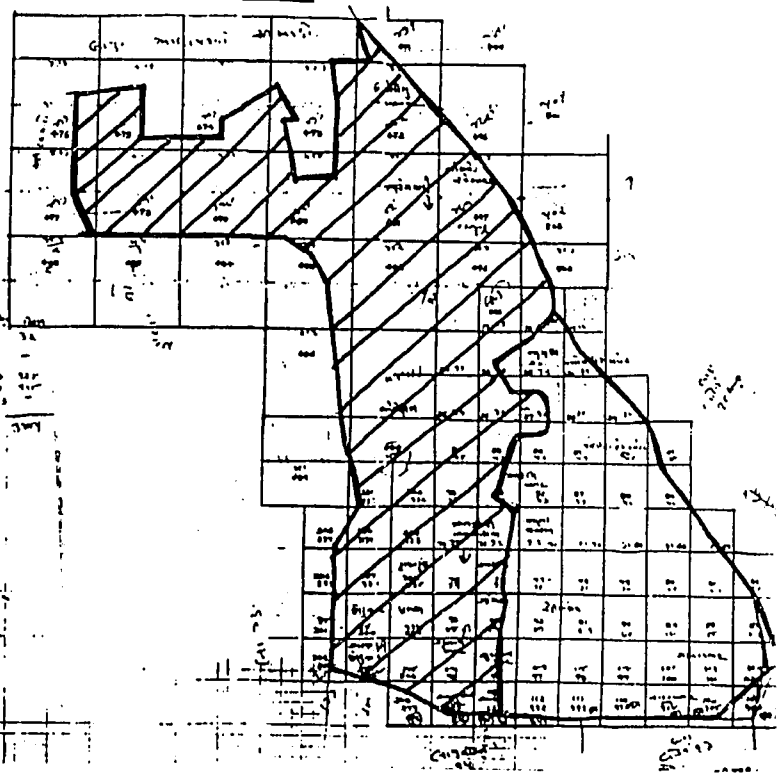


III.2.i
 III.2.ii
 III.2.iii

- III.2.i Map showing five wards under the purview of one superintendent
- III.2.ii City Survey Map divided into wards
- III.2.iii Ward map divided into 'Plane Table Sheet' areas

Maps are not to scale

1. 1000
 2. 1000
 3. 1000
 4. 1000
 5. 1000
 6. 1000
 7. 1000
 8. 1000
 9. 1000
 10. 1000
 11. 1000
 12. 1000
 13. 1000
 14. 1000
 15. 1000
 16. 1000
 17. 1000
 18. 1000
 19. 1000
 20. 1000
 21. 1000
 22. 1000
 23. 1000
 24. 1000
 25. 1000
 26. 1000
 27. 1000
 28. 1000
 29. 1000
 30. 1000
 31. 1000
 32. 1000
 33. 1000
 34. 1000
 35. 1000
 36. 1000
 37. 1000
 38. 1000
 39. 1000
 40. 1000
 41. 1000
 42. 1000
 43. 1000
 44. 1000
 45. 1000
 46. 1000
 47. 1000
 48. 1000
 49. 1000
 50. 1000
 51. 1000
 52. 1000
 53. 1000
 54. 1000
 55. 1000
 56. 1000
 57. 1000
 58. 1000
 59. 1000
 60. 1000
 61. 1000
 62. 1000
 63. 1000
 64. 1000
 65. 1000
 66. 1000
 67. 1000
 68. 1000
 69. 1000
 70. 1000
 71. 1000
 72. 1000
 73. 1000
 74. 1000
 75. 1000
 76. 1000
 77. 1000
 78. 1000
 79. 1000
 80. 1000
 81. 1000
 82. 1000
 83. 1000
 84. 1000
 85. 1000
 86. 1000
 87. 1000
 88. 1000
 89. 1000
 90. 1000
 91. 1000
 92. 1000
 93. 1000
 94. 1000
 95. 1000
 96. 1000
 97. 1000
 98. 1000
 99. 1000
 100. 1000



III.2.iv Changes and subdivision updated in the original survey map of Rajkot



a. At the Sub-Registrar's office: The Sub-registrar's office maintains record of only those properties which have undergone a change of ownership by means of a sale or inheritance or division. The most important record maintained at this office is a photographed copy of the sale deed. The properties that have undergone change of ownership without any monetary transaction are registered in the ledgers of the office and are allotted a registration number. A Land Registration Certificate as proof of such change of ownership is provided to the property owners. Copies of documents such as the *sanad* and *satbar*, the traditional titles of ownership, etc., required for registering transfer of ownership are also maintained. When a land has been changed from agricultural to non-agricultural use, a 'Collector's Order' sanctioning such conversion is required before recording any such transaction. A copy of the Collector's Order is also maintained in this office.

The Anderson Manual - Guidelines for maintaining records in rural and urban areas are laid down by the 'Manual of Revenue Accounts' by F.G.Hartnell Anderson - popularly known as the 'Anderson Manual'. These guidelines are applicable to all villages, *talukas* and districts of Gujarat State. The first edition was printed in 1870. Subsequently it has undergone five revisions. The most current - the sixth edition, was published in 1967. The Anderson Manual stipulates forms and ledgers for keeping all accounts which are kept by the Revenue Department, separate from the accounts maintained by the local governments. The fourth edition recorded a total of 42 Village forms, 52 *Taluka*, and 16 district forms. Currently however, approximately eighteen forms are in use on a regular basis, out of which only three forms are directly relevant to this study. The form number 6 is for recording 'mutations' description and transfer of ownership; form number seven maintains record on the occupant, who may be different from the owner; and form number twelve records the land use of a property.

As per the guidelines in the Anderson Manual, three sets of files are maintained for recording all the information needed for registration:

- i. Index No. 1 is the Day Book as it records every day transaction by serial number. It records the name of the applicant, the property, the date of application, if the property has been registered, the registration number, date registered, the book number in which the details of registration are recorded. Both the serial number and the registration number appear on the sale deed upon registration.
- ii. Index No. 2 is a descriptive index organized by the year and date of registration. It contains the name of the previous and new owner, the location and address of the property, the nature of the sale agreement, the value of the transaction (if applicable), date of the sale or division or inheritance, the date of registration, and most importantly the registration number.
- iii. A 'Photo File' of the registered sale deeds are maintained by the registration numbers. These photo files are kept in a fire proof strong box. Certified records of the photo file copy of the sale deed are issued when required by the owner. To obtain such a certificate, however, applicant must remember the date or number of registration.

The registered sale deeds are sent to the Land Records Office in Ahmedabad for photographing and for state government records, after registration has been sanctioned. It often takes over a month, or a year by some accounts, for the original to reach the applicant. In the mean time a Land Registration Certificate with the registration number is issued by the office to serve as proxy for the sale deed. In the absence of a sale deed, this certificate and the updated *sanad* is one of the most important proofs of ownership.

b. At the City Survey Office: The Property Card, one for each property, is maintained at the City Survey Office. The property card contains information such as the ward number, the city survey number assigned by the office, the address, name of the first owner, and type of tenure. It also records the name of the subsequent owner and date of transfer of ownership. In case of joint-ownership all the names are recorded on the card. In case of division of the property, new property cards are created for all but one owner who retains the original card.

Simultaneously, files on each property are maintained with all copies of all relevant documents such as the death certificate of the previous owner, the *sanad*, affidavits of gift of the plot (where applicable), photocopy of the sale deed and land registration certificate from the Sub-registrar's Office etc. The cards are organized and stored by ward numbers and plane table sheet numbers (survey drawings) in which this property appears, and are easily accessible. Other files, such as the enquiry register, record all the information obtained during time of survey and enquiry of ownership of the property. The Entry Register, which is also the Form # 6 from the Anderson Manual, forms the basis of information on property cards.

c. At the Rajkot Municipal Corporation: The record of property ownership at the Corporation mainly consist of the entries into assessment register. This is maintained for the purpose of taxation and unlike Mysore City, is merely a supportive document in case of litigation.

III.2.iv System Of Property Registration

Transfer of ownership must be registered at three institutions separately by the property owner. These are:

- a. the Sub-Registrar's Office,
- b. the City Survey Office, and
- c. the Rajkot Municipal Corporation.

The burden of registering transfer of ownership in the records of these organizations lies principally with the owner. In case of change in ownership, the property owner(s) must apply to all of these organizations separately. Transfer of ownership is registered at this office in the event of - a) sale of a property, or ii) division of property, or iii) death of the previous owner.

Rajkot was the only city visited out of the three, where a certain degree of institutional coordination was observed. As mentioned earlier, every month a list of the properties registered in the Sub-registrar's Office is sent to the City Survey Office. Even if the owner themselves don't

approach the City Survey Office, after comparison and verification with their own records, changes are made in the property card and in relevant files.

a. The procedure at the Sub-Registrar's Office: The institution with which the transfer of ownership must be registered first, before changes in the records of other institutions may be made, is the Sub-registrar's Office.

The procedure for transfer of ownership is similar in each case. The property owner must submit an application for change of ownership accompanied by documents such as:

- i. the Sale Deed signed by two witnesses in case of sale of a property;
- ii. a death certificate in case of death of the previous owner, and specific details of division of the plot in case of division of ownership;
- iii. other proof of ownership such as the *sanad* or the *satbar*, a copy of the documents from the Revenue Records Office, and the collector's order in case of change of status of land from agricultural to non-agricultural;
- iv. documents stating location and area of the plot, and dimension and areas in case of subdivisions;
- v. affidavit of identification;
- vi. a registration fee of 1.5% of the value of the property;
- vii. any other document as required by the office.

The value of the property is verified by the Stamp Duty Valuation Division of the department of collection, especially in case of sale of property. Apparently specific guidelines for market value of property for different areas of the city is outlined by the Collector Office. A brief inquiry at the valuation office yielded no such guideline. The penalty for undervaluation of a property is Rs.250.00. After verification of the value, and other information such as the identity of the applicant, the change of ownership is registered in the files, and the sale deed. Subsequently the sale deed is sent to the Land Records Office in Ahmedabad for photographing the deed. A copy of the photograph is also kept in Ahmedabad, as this office maintains the land record of the entire state. Once the photograph (approximately 5"x 7" in size) is received by the Sub-registrar's office at Rajkot, it is stored in a fire proof box. The original is returned to the owner.

The entire process is extremely time consuming and takes anything between three months to a year. It requires an applicant to make a number of visits to various offices. It is also has a fairly high official cost i.e. 1.5% of the value of the property and the 10% stamp duty; not to mention the institutionalized bribery that increases the cost of registration.

b. The procedure at the City Survey Office: There are two methods in which transfer of ownership is registered at the City Survey office:

- i. The first method, as mentioned above, is the list of properties registered accompanied by all relevant details, sent from the Sub-registrar's office every month. Once all the information on a property is matched with its own records, the Property Cards are updated;

ii. The second method is through the application of the owner and is similar to the one followed in Baroda. The set of documents that must accompany this application is similar to the list required for by the Sub-registrar's Office. The most important document required is a certified copy of the sale deed or the land registration certificate from the Sub-registrar's Office. The facts in some cases are verified through field visits by maintenance officers. In case of subdivision of property, the maintenance officers conduct a survey to lay out the division lines through the property.

Once the officers are satisfied, a Land Revenue Code notice #135, is sent addressed to the property, and any other known relatives. A thirty days time period is allowed for any objections to be raised by concerned parties, against such a transfer; If there is no objection the property is registered in the name of the applicant. Officially this process is supposed to take a minimum of forty days. In reality, by citizen's accounts this is rarely the case. In the event of objections, the case is arbitrated by the Superintendent. For further arbitrations, the property owner(s) can file the case in a civil court.

c. The procedure at the Rajkot Municipal Corporation: The documents that must accompany the application of change of ownership in the records of the Corporation are the same as the ones required by the Sub-registrar's office and the City Survey Office. After verification of the facts, in some cases through field visits by the tax inspectors, changes are made in the assessment register of the Corporation.

III.2.v Interface Between the Land Information and Property Taxation Systems

In the face of lack of adequate institutional coordination, an interface between the land information system and urban property taxation system does not exist. For instance: one of the functions of the City Survey office is to control encroachment into public land which is also of interest to the Corporation. By accounts of the maintenance officers themselves, such encroachment when discovered during their routine surveys is not reported to the Corporation.

Although the City Survey Office is responsible for maintaining detailed survey map of the city, these maps are far from current. An original set of the 1968 City Survey maps exist at the Corporation, but these are used mainly for the development schemes undertaken by the Corporation.

III.3 THE URBAN PROPERTY TAXATION SYSTEM

The Rajkot Municipal Corporation is the sole authority responsible for the administration of the property tax system within the Rajkot City. Outside the main city limits but within the Rajkot Urban Agglomeration limits, various village *panchayats* levy and collect property tax. The Bombay Provincial Municipal Corporations act, 1949, is the governing act of the Corporation.

III.3.i Source of Local Government Finance

The Octroi and the Property Tax are the two principal sources of revenue for the local government. In FY 1990-91, property tax accounted for 14% of total receipts. In FY 1991-92 and FY 1992-93, property tax accounted for 15% and 19% of total receipts respectively (Table III.3.i).

Table III.3.i: Sources of Local Government Finance -- RMC (Rs. in millions)

| SOURCES | | 1990-91 | | 1991-92 | | 1992-93 | |
|---------|-------------------------------|---------------|------------|---------------|------------|---------------|------------|
| | | Rs. | % | Rs. | % | Rs. | % |
| 1 | Octroi | 150.07 | 38 | 172.94 | 44 | 196.05 | 46 |
| 2 | Property Tax | 57.20 | 14 | 59.32 | 15 | 80.68 | 19 |
| 3 | Non tax & special tax | 49.90 | 12 | 41.88 | 11 | 46.26 | 11 |
| 4 | Govt. grant | 21.98 | 6 | 20.66 | 5 | 7.26 | 2 |
| 5 | Govt. grant - Capital Project | 8.21 | 2 | 8.25 | 2 | 9.19 | 2 |
| 6 | Capital Income | 33.87 | 8 | 58.73 | 15 | 58.30 | 14 |
| 7 | Loan Income | 78.36 | 20 | 27.3 | 7 | 26.64 | 6 |
| | TOTAL | 399.61 | 100 | 389.02 | 100 | 424.40 | 100 |

Source: Rajkot Municipal Corporation records.

Other revenue bases assigned to local governments are derived from theater tax, water charges, cattle impounding charges etc. In addition to taxes, the local government imposes a variety of fees for the use of public facilities and services (such as license fees for shops and industries, land rent, swimming pool, public hall and building, gardens, ambulances etc.). Revenue derived from this category as whole accounted for about 12%, 11%, and 11% in 1991, 1992, and 1993 respectively.

Locally administered taxes and charges are supplemented by government grant. Governments grants are given in two main categories: a) Under the first category the grants constitute the census grant, grant for primary education, health grant, road renovation grant, slum improvement grant etc. This accounted for 6%, 5%, and 2% in 1990-91, 1991-92, and 1992-93 of total receipts; and b) Government grant for capital projects such as development of Fire-bridge services, mobile dispensary, for construction of primary school building, HATCH grant for Urban Water Scheme etc. accounted for 2% in each of the three financial years.

The Corporation also has its own capital income base through selling of land, shopping center developments, HUDCO Scheme house rents, betterment levy, donations, etc. In 1992-93 the Corporation also received Rs 6.7 million from RUDA for city development. Earnings under 'Capital Income' constituted 8%, 15%, and 14% in 1990-91, 1991-92, and 1992-93 respectively. Loan income accounted for 20%, 7%, and 6% of total receipts in 1990-91, 1991-92, and 1992-93, respectively.

III.3.ii Property Taxation Structure In Rajkot

The property tax is levied on the basis of Annual Rental Value (ARV) of properties. As specified by the BPMC Act, the property tax consists of the following taxes, subject to exceptions, limitations and exemptions:

- a. Water Tax and charges¹⁷ for providing water supply for the city;
- b. Conservancy Tax for providing and maintaining sewage disposal system; and
- c. General tax on the property.

Provision of water supply and licenses for shops are closely linked to the payment of property tax.

For the purpose of administration of municipal services and taxation, the city has been divided in to nineteen wards (Figure III.1.iii). Unlike Baroda and Mysore, however, there are no ward offices in these wards. All the administrative work is carried out at the Tax Division of the Corporation itself.

Divisions of RMC and other private institutions involved in administration of property

tax: Two divisions within the Corporation are involved in the administration of property tax in Rajkot:

- a. **The Building Permission Division** which issues building licenses, completion and occupation certificates, aids in discovery of properties by sending information about new construction and alteration to properties to the Tax Division;
- b. **The Tax Division** at the Corporation is the division which undertakes all the administrative work involved in levy and collection of taxes. Headed by the Deputy Commissioner, it employs one tax officer, one accountant, 21 tax inspectors, 45 clerks, and 16 peons. On an average two tax inspectors per ward are assigned the task of valuation and assessment of taxes. The clerks are responsible for preparation and maintenance of demand register and preparing bills. They are also responsible for collection of dues, and receiving and

¹⁷ Water is a rare commodity in Rajkot. On average the city receives water supply for only a half hour per day, at the rate of twenty gallons per head.

maintaining objection files. There are three appellate officers who deal with objections and complaints from property owners.

- c. Private contractors are hired for computerized preparation of bills and delivery of bills through private couriers.
- d. Branch offices of a national bank, distributed across the city, have been designated to receive payment of dues from the property owners. The property owners may also pay their taxes at the Corporation.

III.3.iii. Process Of Property Tax Administration

Following is the sequence of steps undertaken by the Rajkot Municipal Corporation in administration of properties of property tax:

a. Identification

The statutory requirements are exactly the same for Rajkot as for Baroda. In practice, however, execution of various steps in the process vary substantially, due to the small, but important, reforms undertaken by the Corporations. The total number of households on the tax roll is 10380. As per the Corporation officials only approximately 3% of this number is unauthorized. The five principal modes of identification of properties in Rajkot are:

- i. Statutory requirements place the burden of declaration on the owner/person liable for payment: The chapter VIII 'Taxation Rules' of the Baroda Provincial Municipal Corporations Act, 1949, clearly places the burden of notification of any change in ownership of a property and any construction or alteration to the property, with the owner or person primarily liable for the payment of property tax. In the absence of such notification within stipulated time periods the original owner or person primarily liable for payment of taxes for the premise, continues to be liable for payment of all applicable taxes to the property as well as any other liability in terms of penalties etc. incurred during this period.

The stipulated time periods vary for different kinds of transfers of assessable premises. For instance: (a) in the event of death of the person primarily liable for the payment of the tax, the heir must notify the Corporation within a year of the demise of the former; or (b) when a new building is erected, or rebuilt and altered, or a vacant building is re-occupied, or when the use of the building is changed, the person primarily liable for the payment of taxes for the premise must notify the Corporation within fifteen days, or (c) in case of transfer of ownership of the property, the person to whom the rights have been transferred, must notify the Corporation within three months after the execution of the transfer.

- ii. Notification from the Building Permission Division to the Tax Assessment Division: This is a more successful method of discovery of properties for taxation. Upon issuing the building completion certificate, the building permission division of the Corporation notifies the tax division. The notice consists of the completion certificate, a copy of the sanctioned plan,

name of the owner, the location and address of the property, details of the plot area and the built area, details of cost of construction and materials used, etc.

Procedure of obtaining building permission: This in itself is a laborious and time consuming process. A property owner must obtain various documents and certificates from various institutions. An application for building permission in RMC must be accompanied by:

1. Two sets of copies of plans of the building;
2. Receipt of house tax;
3. A certified copy of the sale deed or a land registration certificate from the Sub-registrar's office;
4. Copy of the property card or *sanad* from the City Survey Office;
5. Certificate from the Urban Land Ceiling Office - a *Kaulatnama*;
6. Indemnity Bond on Rs.40.00 GOI stamp paper;
7. Scrutiny fee at the rate of Rs. 2.00 per square meter of the plot area;
8. Scrutiny deposit at the rate of Rs 2.50 per square meter of the plinth area; and
9. Any other document requested by the division.

For high rise buildings, the licenses are issued by the commissioner himself. The building activity permitted must follow the guidelines in the Comprehensive Development Plan developed by RUDA. The official time required to issue a building permission is eight days. By all accounts this is rarely the case. Once the building permission is issued construction may begin. During construction the owner must have the building inspected by building inspectors from the Corporation. Following the final inspection, a completion certificate is issued.

Upon receiving the notification of completion, a 'requisition notice' is prepared by the tax division, by eight days, as per the rule 8, chapter 8 of schedule A of the BPMC Act. This requisition notice requests the owner to furnish documents such as the copy of the sale deed or a certified index number of registration from the sub-registrar's Office, cost of land, cost of construction, its usage and rent if applicable.

Once a complete set of documents is received, a tax inspectors may conduct an enquiry during a field visit for verification. Once all the formalities have been satisfied, the entry is recorded in the assessment register.

iii. **Unauthorized properties are included in the tax base:** Unauthorized properties (e.g. properties that have been seized by the government under the Urban Land Ceiling Act or properties in squatter settlements), and these properties are provided with the basic services. The Rajkot Municipal Corporation has attempted to address this issue of revenue loss due to the practice of levying taxes only on registered property, by incorporating even the slums and squatter settlements which receive municipal services, in the tax base. Ration cards or electricity bills serve as adequate proof of ownership. This is a comparatively new effort and therefore there was no readily available data to indicate the success of this effort. The Corporation officials claimed that the households paid the taxes as the taxes were strictly linked to the provision of water, a scarce commodity in Rajkot.

iv. **Through field visits of the inspector:** Certain properties or extensions to properties are discovered during the field visits of the tax inspectors. Due to the centralized system of administration this is not a very effective method of discovery in Rajkot. The inspectors are not as familiar with the properties under their jurisdiction as in Mysore or Baroda. According to the tax officer himself, only the large constructions are noticed and discovered.

v. **During Revision Assessment:** Once every four years, a Revision Assessment of all the properties in Rajkot City is undertaken by the tax division. During the assessment all the buildings that have undergone any change in the form and size of the house, or in materials used for construction, or the rent obtained from the premises, or the use of the property has been changed are discovered and assessed for taxation. RMC is in the process of instituting reforms in through the Revision Assessment initiative. These reforms are:

- i. ***Reform in Revision Assessment procedure:*** The last Revision Assessment was completed in 1988. Revaluation of all properties in the stipulated time period of one year is a mammoth task. For the Revision Assessment that begun in 1992, the city was divided into three zones. assessment of the first zone (comprising of ward numbers 6,7,14,15 and 16) 33000 properties have been completed. Of this 7000 properties were revalued and special notices informing the tax payer of his/her new liability were issued. In response 5200 objections have been received which are currently being dealt with.
- ii. ***Reform in system of maintenance of records:*** A new set of forms and filing system has been developed. A 'Basic Form' has been created which records information on ownership, locality, construction details as well as information on the type of infrastructure available to the particular property. This form is now being changed and adopted after its first trial. The information obtained is then translated into a 'master data form' a short form for the computer. Another file with 'noting sheets' is also created. The noting sheet carries a brief report from the tax inspector and approval of the tax officer, and the deputy commissioner. Subsequently this information is entered into an 'assessment register' where name, address, rateable, tax assessed, and objections raised (if applicable) are noted. A 'demand register' is also maintained, which carries all of this information as well as arrears, current and closing balance.

A file on each property has been created which maintains all the relevant documents, applications and letters. This is a definite improvement over the previous practice of creating a file every time a complaint or an application was received only to file it away in a after the matter at hand had been dealt with. Later if all the papers of a property were needed for instance in the event of a litigation, it used to be virtually impossible to retrieve all the papers required. In the face of high rates of litigation, this system should work well as each step of the taxation process is recorded and is immediately accessible for scrutiny when necessary.

- iii. **Computerization of specific functions:** All the forms have been designed with the intention of computerization of the taxation system in mind. Some of the functions such as billing is already carried out on the computer by a contracting firm. With a Rs. 200,000.00 loan from the World Bank, the Corporation is moving ahead with plans automation of the taxation system.
- iv. **Introduction of the process of Self Assessment:** The procedure for acquiring land and registering transfer of ownership is complex. Substantial number of properties that have been traditionally held within a family have acquired an unauthorized status due to the enactment of the Urban Land Ceiling Act. The requirements specified in approximately *thirty acts* have to be met before a property may acquire the authorized status. Consequently, there are a number of properties that remain unauthorized. In an effort to recover loss in revenue, a system of 'Self assessment' was introduced. A self-assessment form was created. By completing this form, a property owner even of an unauthorized property and households living in slum areas may begin to pay taxes and have legitimate access to basic municipal services such as a water connection.

b. Valuation

The property tax in Rajkot is assessed on the basis of Annual Rental Value of the properties. No written guidelines for valuation of properties exist. The only guideline present in the BPMC Act, 1949, is that the properties are 'to be valued as per the rent due in respect of the property'.

The properties are valued as per the rental values assigned by the Corporation. This rate varies in different areas of the city. This rate is set by the Commissioner, the city engineer and the tax officer on the basis of their personal knowledge of the market value of properties in different areas of the city, local enquiry in to the value of properties, the use of the property (commercial, residential, industrial) and capital cost of construction. The rental rates (per month) assigned by the Corporation for valuation are presented below. According to the officials the values assigned by the Corporation reflects the market value fairly accurately.

- i. The rental values for residential properties, outlined for the purpose of valuation are approximately as follows:
Rs 0.50 per square feet in poorer localities,
Rs 0.80 per square feet in middle income localities, and Rs 1.50 per square feet in high income localities.
- ii. The rent for commercial properties range between Rs. 4.00 to Rs. 6.00 per square feet.
- iii. In slum areas a flat rate is charged according to the type of construction, for instance:
Rs 50.00 for *kutchha* - temporary construction,
Rs. 75.00 for *pucca* - permanent construction, and
Rs.100.00 if there is toilet attached to the building.

The procedure of valuation: The properties once identified are valued by the tax inspectors. The inspectors provide the basic information necessary for valuation in a 'standard form'. This consists of information such as name of the owner or person liable to pay the tax, the address, the location of the property, its plot area, built up area, type of construction, year of construction and the rent for the property (if applicable). Based on this report, the property is valued and 10% of the value is deducted for repairs and maintenance. Once it is approved by the tax officer and the deputy commissioner, this becomes the rateable value of the property. All the ARV related taxes are calculated on the basis of this value.

Updating: The rates once assigned may not be updated even if the market value of the property has increased. The rateable value may be changed only when there has been a change in the form and size of the house, or in materials used for construction, or the rent obtained from the premises, or the use of the property has been changed. Therefore during Revision Assessment, only the properties which have undergone such changes are recorded and revalued. Any changes in market prices in the absence of any of these criteria, are not reflected in the rateable value of properties.

c. Assessment and Rate Setting

After the valuation is completed the ARV and tax assessed is recorded in the assessment registers. The BPMC Act gives elaborate guidelines for maintenance of the assessment register. As stated above, new assessment registers are being created geared toward computerization of the taxation system. This register records the name, address, rateable value, tax assessed, and objections raised (if applicable) with respect to each property. The Property Tax in Rajkot city is levied per household. The tax rate differs according to different slabs of rateable value of property. These slabs are applicable to all properties irrespective of its use. Sectoral differentiation is incorporated during valuation as properties under different use is valued according to different rates. The Property Tax comprises of:

- i. **The Conservancy Tax:** This tax is also assessed as a specific percentage of the rateable value of the properties. The conservancy tax rates differ for different use of properties, as presented in Table III.3.ii.

Table III.3.ii: Conservancy Tax Rate structure for Rajkot:

| | |
|-----|--|
| 4% | Residential buildings |
| 7% | Commercial complexes, hospitals, offices, banks etc. |
| 9% | All industrial premises, and factories with less than fifty workers. |
| 10% | All industrial premise and factories with more than fifty workers. |

Source: Rajkot Municipal Corporation records.

- ii. **The Education Cess:** This is collected on behalf of the state government. However 70% of this tax collected is devolved to the local government as grant from the state government. It is also levied on the basis of rateable value. Unlike the house tax different rates are applicable to residential and commercial properties. The rate structure is presented in Table III.3.iii:

Table III.3.iii: Rate structure of Education Cess in Rajkot.

| Slab of Rateable Value (in Rs.) | | Residential Properties | Commercial Properties |
|---------------------------------|----------------|------------------------|-----------------------|
| 1. | 1 to 300 | Exempted | Exempted |
| 2. | 300 to 1000 | 3% | 7% |
| 3. | 1000 to 2500 | 5% | 11% |
| 4. | 2500 to 4500 | 6% | 14% |
| 5. | 4500 to 6000 | 7% | 16% |
| 6. | 6000 and above | 10% | 20% |

Source: Rajkot Municipal Corporation records.

Note : . These rates have been applicable since April 1, 1970.
 . The slab of rateable value Rs. 6000 and above has been included since November 1, 1977.

- iii. **The General Tax**, also referred to as the House Tax, is levied within statutory limitations of not more than 30% of the rateable value, on a graduated scale as per different slabs of the rateable value ¹⁸ (Table III.3.iv).

Rates are revised and updated by the General Board of the City. The General Board consists principally of elected members of the Council. Raising taxes is politically unpopular. Therefore, the rate, if raised, is increased only marginally. The last revision was sanctioned in 1989. The assessment of each property as per statutory requirements are published annually in the local newspapers and posted in prominent corners and squares of the city. The person(s) liable for payment are required to raise any objections within a stipulated time period of fifteen days. There are eight appellate officers deal in the Tax Assessment division who deal with these complaints. If the citizens are not satisfied with the decision of the appellate officers, they may litigate the decision of the municipality at the court of law.

¹⁸ The rate structure of the House Tax in Rajkot is identical to that of Baroda, with only two differences. The rate for the Rs. 601 to Rs. 2000 slab of rateable value is 12 % in Rajkot instead of 13% in Baroda, the rate for the entire slab between Rs. 5001 to Rs. 7000 is 23%, unlike Baroda where the tax rate for the slab between Rs.5001 to Rs. 6000 is 15% and between Rs. 6001 to Rs. 7000 is 20% of the rateable value.

Table III.3.iv: Rate structure of the House Tax in Rajkot:

| | Slab of Rateable Values (in Rs.) | Current Tax Rates |
|---|----------------------------------|-------------------|
| 1 | 1 to 600 | Exempted |
| 2 | 601 to 2000 | 12% |
| 3 | 2001 to 5000 | 15% |
| 4 | 5001 to 7000 | 23% |
| 6 | 7001 to 10000 | 25% |
| 7 | 10001 and above | 30% |

Source: Rajkot Municipal Corporation records.

Note: These rates have been revised and are applicable since April 1, 1988.

d. Billing

Both water and property tax bills are issued simultaneously. These are issued once a year by March 31 for the following financial year. The bills must be paid within that financial year.

The Corporation has instituted two mentionable reforms in the billing process. These are: (a) The Property Tax bills for Rajkot are prepared on computers by a contracting firm in Ahmedabad. The Water tax bills are prepared manually, and (b) once the bills are received from Ahmedabad, these are delivered to each household by a local courier service who have a contract with the Corporation. Both of these are notable and innovative administrative reform which help make the system more efficient in terms of human resources, cost and time.

e. Collection

The total demand for a property must be paid by the closing of the financial year i.e. by March 31. According to the tax officer in the Corporation, by september the collection is over. A fifteen days grace period is allowed. In practice however, the tax payer is allowed up to two months before a demand notice is issued. The citizens may pay their dues at the Corporation or at eight branches of The Bank of Saurashtra. These branches are assigned to collect taxes on behalf of the Corporation. The eight branches are distributed all around the city to facilitate payments by citizens. In the event of objections and litigations, 75% of the tax must be paid before the appellatant can take his/her complaint to the courts.

Follow up on delinquents: In case of default, an 18% interest is charged from April 1 onwards. A notice of default is sent to the defaulters. If the liable person continues to default, a warrant is issued against the property for auction. The auction is also advertised in the newspapers. The Corporation can purchase this property at the auction for a token Rs. 1, in the

absence of any buyers. This property then is usually returned after the payment of all the dues, penalties, and interests.

Delinquent properties are rarely auctioned. Before issuing a warrant the taxpayer is persuaded to pay its dues by the inspectors and tax officers. In the experience of the tax officers at RMC, in case a warrant is issued, due to social pressure, the persons liable tend to pay their dues to the extent their financial situation allows. In case of sever financial hardship, the Commissioner allows the payment of dues with interest on an instalment basis, at his own discretion. This however is another source of revenue loss to the Corporation.

III.3.iv Tax Recovery Performance

Table III.3.v shows the demands assessed, the collection and the percentage collection of property tax from 1990 to 1993.

Table III.3.v: Target, collection and percentage collection of Property Tax: RMC (Rs. in millions)

| | 1990-91 | 1991-92 | 1992-93 |
|-----------------------|---------|---------|---------|
| Target for the year | 52.5 | 55.7 | 69.1 |
| Collection | 56.2 | 60.1 | 77.8 |
| Percentage collection | 107% | 108% | 113% |

Source: Rajkot Municipal Corporation Records.

Data for actual demand assessed for the years were not available at the Corporation. Tax recovery rate was calculated against the target set for the year. The tax recovery rate therefore, is 107%, 108% and 113% for the FY 1990-91, FY 1991-92, and FY 1992-93. If the true annual demand were to be assessed it is likely that it would be considerably higher than the target set by the Corporation. If the data obtained is an accurate representation of the recovery rate, then Rajkot was the only city visited where the local government collected more than the demand for the year. This is not a comparable means of comparison as the other recovery rate was calculated against actual demand assessed.

ANNEX IV THE CITY OF MYSORE

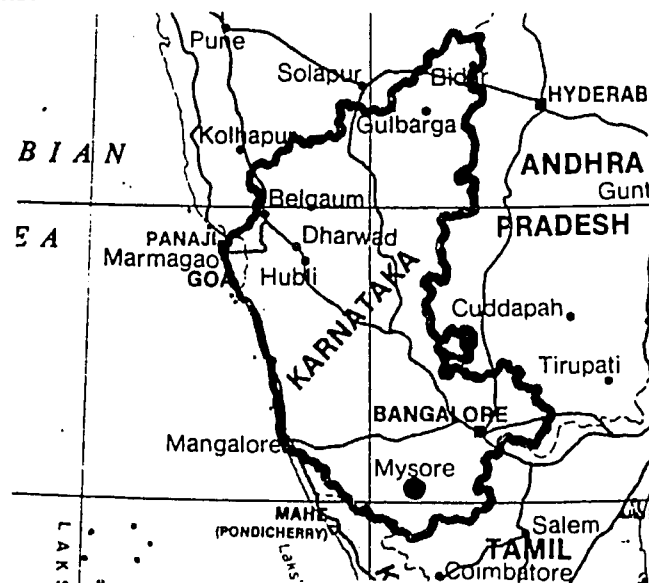
IV.1 BACKGROUND

Mysore is a medium size city situated in the State of Karnataka in southern India (Figures IV.1.i and IV.1.ii). Known for its historical palaces, temples and gardens, with a cool temperate climate all year round, Mysore is one of the important tourist destinations in India. It is one of the fast growing urban centers in India. The City of Mysore consists of the inner Mysore City under the jurisdiction of the local government the Mysore City Corporation¹⁹ (MCC), and the surrounding larger urban agglomeration under the jurisdiction of Mysore Urban Development Authority (MUDA) and rural local governments.



IV.1.i State of Karnataka

IV.1.ii City of Mysore in Karnataka



¹⁹ For the purposes of this study, the area of City of Mysore under the jurisdiction of the Corporation has been considered and is referred to as 'Mysore City'.

The officially estimated population of the Mysore city is 0.48 million people, as per the 1991 census. The total population in the Mysore City Agglomeration including Mysore City is over 0.65 million. As in other cities in India, Mysore has its share of squatter settlements, pushing the total population well over the official estimates.

Land management and Land Information System in Mysore City is administered and maintained by a number public organizations under the jurisdiction of state government - the Government of Karnataka. The Property Taxation System is administered primarily by the Mysore Municipal Corporation -the local government of Mysore. Mysore Urban Development Authority also levies and collects Property Tax on properties on their land till jurisdiction of such land is handed over to MCC.

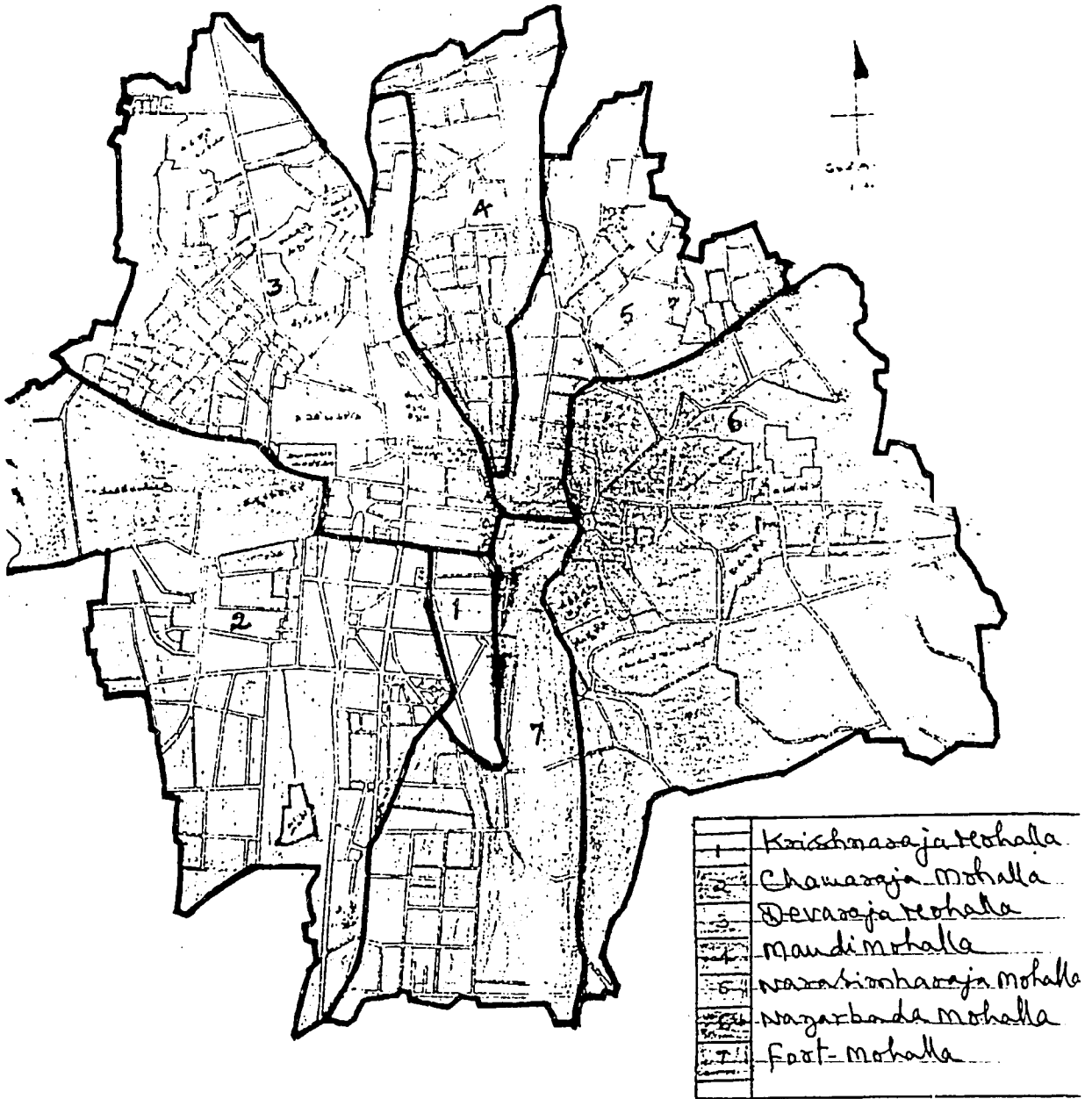
For the purposes of administration, the Mysore City has been divided into eleven subdivisions - known as *Mohallas*. There are three 'Market Mohallas' and eight regular *mohallas*. The market *mohalla* consists of entirely commercial property owned by the Corporation. Other *mohallas* consist of a mix of land use where property is owned by private property owners, the Corporation, the state and the central government agencies (Figure IV.1.iii).

II.2 THE LAND INFORMATION SYSTEM

II.2.i INSTITUTIONS

Land in Mysore City is managed by a number of state level public institutions. Each of these organizations have their own separate functions with respect to land management within the city and they operate as independent bodies. The Corporation also maintains property records for the purpose of administration of taxes. The institutions involved in land information system in Mysore are:

- a. The Site and Houses Registrar's Office - administered by the state government;
- b. The City Survey Office - a division of the District Collectorate, under the jurisdiction of the state government;
- c. The Urban Land Ceiling department - administered by the state government;
- d. The Mysore Urban Development Authority - administered by the state government; and
- e. The Mysore City Corporation - the local government for the City of Mysore.



IV.1.iii Ward map of Mysore

a. The Site and Houses Registrar's office: A division of the Sub-registrar's Office this office maintains records of transactions and division of all properties in Mysore²⁰. It does not, however, have any record of properties which have not undergone any transaction or division, or which have undergone change of ownership without registration. A copy of registered *Sale Deed* issued from this office is considered one of the most important documents as a proof of ownership of a property.

b. The City Survey Office: The City Survey Office was established, recently as 1978. In 1985, the office was suspended due to lack of funds. It has begun its operations again only in 1991. The area under the jurisdiction of this office is 56.53 square kilometers. The city, however, is much larger than these limits.

A division of Department of Land Records in Mysore -- the City Survey Office is principally responsible for preventing public land (parks, roads and government property) from encroachment and illegal occupation. It is also responsible for maintaining the legal and fiscal cadastre of all land and properties in the form of detailed plotted data, in the form of property cards and survey maps of the City of Mysore. It is supposed to undertake revenue and cadastral survey on a regular basis for the area under its jurisdiction. The office also performs spot surveys on specific properties under litigation or for transfer of ownership, when called upon by the involved parties to do so.

The intermittent functioning of the office however has precluded a complete and comprehensive set of maps from being developed. Large gaps exist in the current maps and property of only a handful of properties are in possession of this office. Because of this, Property Card is not a considered a definitive legal document in case of litigations or transfer of ownership etc.

c. The Urban Land Ceiling Office: The principal function of the Urban Land Ceiling Office is to implement the Urban Land Ceiling Act²¹ in Mysore. It ensures conformance with the Act for all new development of properties, which specifies an urban land ceiling of 1500 square meters for a medium-sized city such as Mysore. It is also empowered to make exceptions and variations under the Act. The Urban Land Ceiling Certificate issued by this office is necessary to obtain any building permission or change of ownership of property in the city.

²⁰ Under the Indian Registration Act of 1908, all properties must be registered. All the records of properties that this office maintains is also kept at the main Land Records Office in Bangalore, which maintains land records for the entire state of Karnataka.

²¹ The Urban Land Ceiling and Regulation Act of 1976 (ULCA) imposes a ceiling on the amount of vacant land that can be owned by an individual. An attempt to distribute land more equitably in the urban areas, any individual owning land in excess of the ceiling is expected to sell the land to the government for not more than Rs.10.00 per square meter, significantly less than the market price. The land thus acquired was meant for affordable housing to be built by the government. Of the estimated 166,000 hectares of 'excess' land, the government had acquired only 3,852 hectares and constructed housing on 621 hectares by 1987. The majority of this housing was not aimed at low-income groups. [Source: "Housing -- Enabling Markets to Work", The World Bank, 1993]

d. Mysore Urban Development Authority (MUDA): MUDA was established in May 1988, under the Karnataka Urban Development Authority Act 1987, in place of the city Improvement Trust Board which existed in Mysore prior to MUDA. MUDA's principal function is to formulate Comprehensive Development Plans²² for the 'Mysore City Local Planning Area' which refers to the entire urban agglomeration of Mysore, including areas which are currently rural but are expected to be encompassed by the city due to the projected growth of the city. This plan is prepared and updated every ten years²³. It principally defines the land use in various parts of the planning area and is binding on any authority, including the MCC to develop the area under their jurisdiction as per this plan. MUDA also acquires and develops land outside the MCC jurisdiction. These are known as Town Planning Schemes or more typically, as TP Schemes. These developments are, however, are handed over to the MCC for maintenance and administration of basic services and taxation system, after a year or two.

e. The Mysore City Corporation: The Corporation maintains a record of ownership of land and properties only for the purposes of tax collection. This is known as 'Katha'. Katha exists only for registered i.e. legalized property in the city. Corporation records therefore, does not present an exhaustive and comprehensive record of all land and properties in the city. This record is, however, important record for establishing proof of ownership of a property.

IV.2.ii Basic maps:

Maps of the Mysore City are available with:

- a. MUDA, and
- b. City Survey Office.

a. At MUDA: The maps available with MUDA mainly depict existing and proposed land use. These maps do not record any information on specific properties. These maps were prepared on the basis of eighty year old maps available with local authorities such as the Water Supply and Drainage Board, etc. and a basic survey carried out last in 1976. Only changes in land use has been updated every ten years. These maps do not record the growth and changes within the city after last survey carried out in 1976.

b. At City Survey Office: This office is responsible for preparing and maintaining cadastral and revenue maps. For this purpose the city has been divided in to seven subdivisions -

²² The Comprehensive Development Plan is prepared under the Karnataka Town and Country Planning Act, 1961.

²³ The Comprehensive Development Plan that is currently operational was prepared in 1981. The plan prepared in 1991, which is an update of the previous plan, has been only provisionally approved and therefore, can not yet be implemented.

known as '*Mohallas*'²⁴ (Figure IV.2.i). Each of these *mohallas* are divided into 'Plane Table' areas (Figure IV.2.ii) - size of the surface of the table used for surveying. These when drawn up as maps cover an area equivalent to 25 inches x 37 inches at the scale of 1:500. For instance, there are 99 plane table maps in the Fort Mohalla. These plane table areas have been regrouped into local area maps (prepared at 1:1250 scale). The Fort Mohalla consists of 6 Local Area Maps (Figure IV.2.iii). The total number of properties are different in different *mohallas* of the city. There is a total of 4993 properties in the Fort Mohalla.

All the maps available at this office was prepared manually using the Plane Table Survey method between 1978 to 1985. However, no new mapping effort has been undertaken ever since the office started functioning again in 1991. Due to the piecemeal nature of its survey effort, the maps available at this office are far from complete.

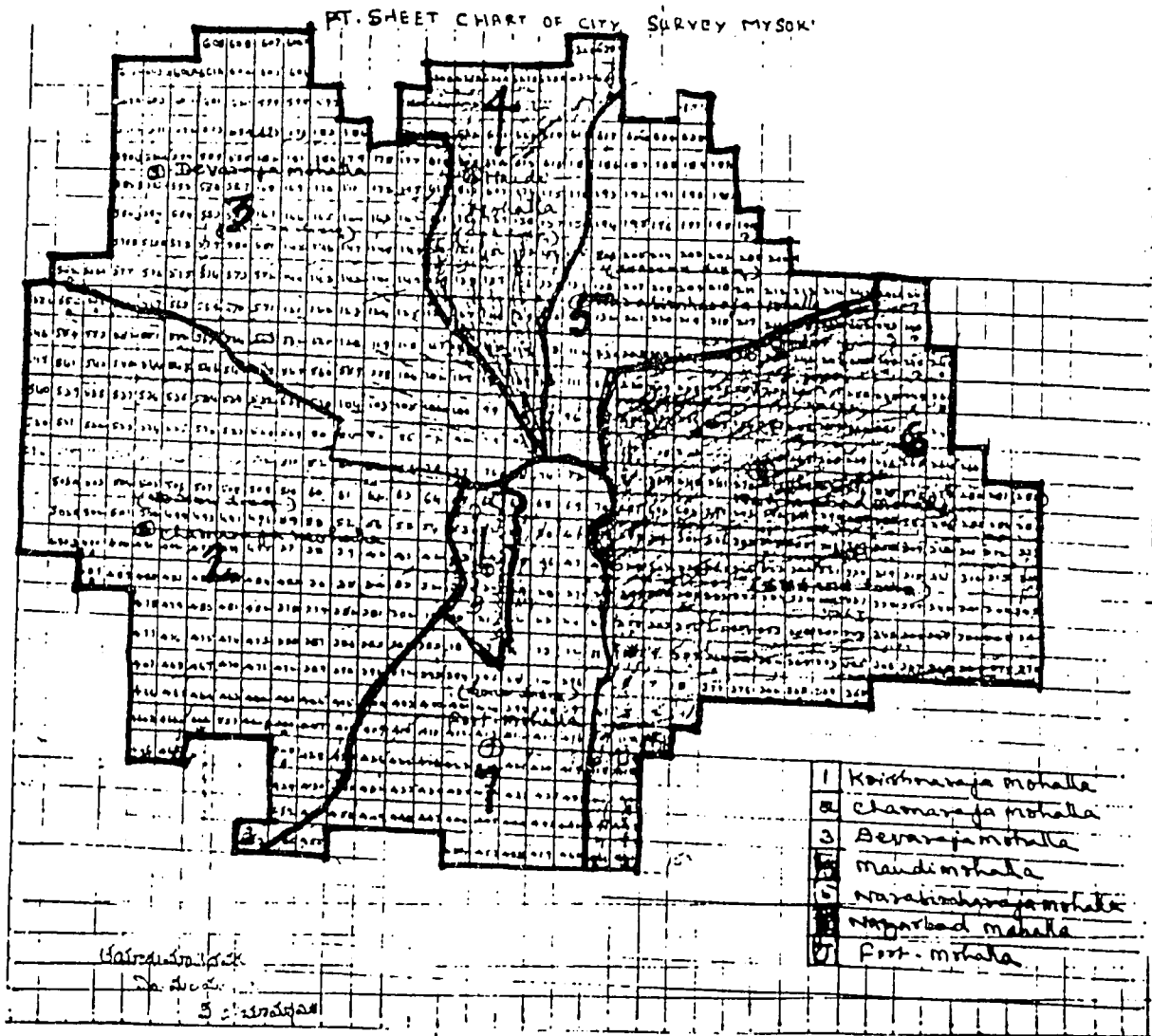
In spite of two organizations simultaneously undertaking survey and mapping initiatives, none of the existing maps at either of these institutions present comprehensive land information system. There exists no coordination and exchange of information between the two institutions, and therefore, there is considerable duplication of effort. It is apparent that both organizations, and indeed the other concerned organizations could benefit from a greater degree of coordination and exchange of information between such organizations.

IV.2.iii System of Maintaining Land Records

Different institutions maintain different types of land records for different institutional functions:

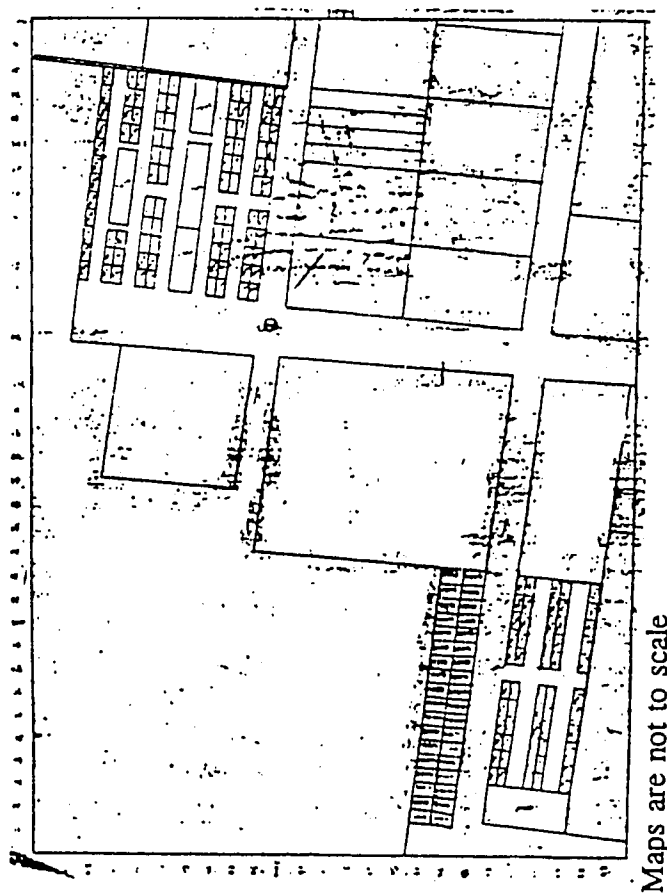
- a. The Site and Houses Registrar's Office -- issues and maintains the '*sale deed*' or '*Land Registration Certificate*'; and
 - b. The City Survey Office -- maintains the '*property card*' and '*sanad*'.
 - c. Mysore City Corporation -- maintains the '*katha*';
 - d. MUDA -- issues the '*allotment certificate*';
- a. At Site and Houses Registrar's Office: The records maintained the Registrar's office pertain to only those properties which have undergone transaction or division or change of ownership in any other fashion, and the owners have registered such change of ownership with this office. A complex system of land records exist at this office. Three sets of files are maintained. All the files are organized according to the *mohallas* and the date of registration of transaction.

²⁴ These subdivisions are the exactly the same as the ones used by the Mysore City Corporation for the purposes of tax and Corporation services administration. Only the Corporation work with eight *Mohallas* and three special '*Market Mohallas*', as some of the City Survey Office's subdivisions have been further subdivided for ease of administration by the Corporation.



IV.2.i City Survey Map showing division of wards in Mysore

IV.2.ii Local Area Map of the Fort Mohalla



IV.2.iii Map of one Plane Table Sheet

- The first set of files consist of a hand written word to word copy of the sale deed²⁵.
- The second set of files are called the Nominal Index where the entries are according to the alphabetical order of the names of new owners in that year;
- The third set of files known as the Descriptive Index are again organized chronologically for each *mohalla*. It carries detailed information on date of transaction, identification of the property involved, names of the seller and the purchaser, date of execution and registration, volume number of the file and index number etc.

The copy of the registered sale deed²⁶ and an 'income-rent certificate'²⁷ are important documents for the purposes of litigation over taxation or property ownership, for obtaining building licenses etc.

Due to the system of organizing the records according to the year they are registered, to obtain either of the sale deed or the income rent certificate, a person needs to know the date of last transaction. Since transactions of residential properties are not very frequent, often the current owners can not recall the dates. This lead to an entry by entry search of all the files till it is located in one of the files. This understandably is a laborious and time consuming process, often requiring a Clarke to devote over a day or two to identify one entry in the files.

Though all properties must be registered at this office, only the properties that have undergone change of ownership principally through transaction, inheritance or division, and the owners have registered such transaction at the office, are found in the records of this office. The 12% stamp duty acts as a considerable deterrent to recording such transactions. Also many of the old properties that have not undergone any transaction but have been inherited /or subdivided, do not form part of these records. Again these records do not constitute a complete and comprehensive information on ownership of properties within the city.

b. At the City Survey Office: A *Property Card*, one for each property surveyed, is prepared and maintained at the City Survey Office. The Property Card consists of detailed information such as the property number, municipal number assigned to each property by the Corporation, the city survey number, location of the property, name of the previous and current

²⁵ Three employees are employed at this task. One dictates the document, the other writes and once complete another compares the original and the copy. If correct, it is signed by the registrar.

²⁶ A Sale Deed is an agreement of transaction type written and notarized on Government of India stamp paper of the value of 12% of the amount of transaction.

²⁷ The 'Income-rent' certificate consists of a standard form completed by the official with information such as the date and amount of transaction, the purchaser and the seller, address and location of the property, the volume number of the file it is drawn from etc.

er survey of each property a *Sanad* is issued. The *Sanad* contains information such as the name of the owner, whether it is a leasehold or a freehold plot, a broadly general figure about the minimum taxation liability, basis of measurement as per the Karnataka Land Revenue Act 1964. It also accepts the supremacy of the *katha* records at the Corporation. These have no information on any built structure on the plot.

Only the properties that have been surveyed by this office are given property cards and sanads. Due to the sporadic functioning and short life of this office, only a handful of properties have been issued these documents. Therefore, apart from being an incomplete record of the city's land records, these documents are not as important as the *katha* document or the sale deed. These documents are principally used as supporting documents in case of litigations.

c. At Mysore City Corporation: The *Katha* maintained by the Corporation is the record of property ownership on lands within the Corporation's area of jurisdiction. The *Katha* consists of the property owner's name associated with a specific property in the assessment ledgers used for administration of Property Tax. The *Katha* certificate issued by the Corporation is an important document for the purposes of litigation over taxation or property ownership, for registration of transfer of ownership at the Sites and Houses Registrar's office, for obtaining building licenses etc. These records are only of the registered and authorized land in the city. No such record exists for unauthorized properties²⁸.

d. At MUDA: The *kathas* of properties at MUDA are maintained only on land owned by MUDA, typically in the 'Town Planning' or the 'TP' schemes developed by MUDA. MUDA maintains these records only until these schemes have been developed and people have occupied the properties for two to three years. Subsequently, these developments are handed over to the Corporation for administration of various services and taxes. The *katha* maintenance of these properties then become the responsibility of the Corporation. Nonetheless, for these properties, the allotment certificate issued by MUDA is an important document as a proof of ownership.

²⁸ Two types of properties come under the under the definition of unauthorized properties. The properties in the first category are usually visually indistinguishable from legally occupied properties, as they are made of permanent materials, such as brick and concrete and are laid out systematically with space for access roads etc. Shelters, usually constructed out of impermanent materials, in slums and squatter settlements comprise the second type of unauthorized properties. None of these properties own the land on which they are situated.

IV.2.iv System of Property Registration

Transfer of ownership must be registered at three institutions separately by the property owner. These are :

- a. The Site and Houses Registrar's Office,
- b. The City Survey Office, and
- c. The Mysore Municipal Corporation.

The burden of registering transfer of ownership, with each of these organizations, lies with the concerned property owners. In case of any change in ownership the property owner(s) must apply to all of these organizations separately. The institution with which the transfer of ownership must be registered is at the Registrar's Office. Transfer of ownership is registered first at this office, when there has been: (i) sale of a property, or (ii) division of property, or (iii) death of the present owner.

a. The procedure at the Sites and Houses Registrar's Office: The procedure for registering transfers are similar in all three cases. The property owner must submit an application for change of ownership accompanied by documents such as:

- i. Sale Deed in case of sale of property. This deed is prepared on Government of India stamp paper of the value of 12% of the amount of transaction. 10% of this consists of the 'stamp duty' levied by the central government and 2% is diverted to the local government as the municipal surcharge. This deed includes all the particulars of the property as well as signatures of two witnesses and thumb prints of the seller and the purchaser. Licensed deed writers located in the shaded courts outside the office prepare this deed for a charge.
- ii. Registration fee of 2% of the value of property;
- iii. 'Tax Paid' certificate from the Corporation -- as proof of payment of Property Tax;
- iv. Certificate from the Urban Land ceiling Department;
- v. Two affidavits as prof of identification of the concerned parties; and
- vi. any other document as required by the office.

Subsequently the value of the transaction is verified according to the guidelines of market rates at different locations of the city, established by the state government. Ultimately when registered all the relevant signatures and registration numbers are written behind the sale deed document, making it the most important document of the transaction and ownership. Subsequently, entries are made in the relevant files as described above and the deed returned to the owner by hand or by post.

b. The procedure at the City Survey Office: The process of registering such change in ownership at the City Survey Office is similar to the one the Registrar's Office. Documents required are the same. The area of the plot is verified by the surveyors at the office. In case of division of plots the City Survey Office plays an active role in demarcating precise plot division lines. Subsequently the changes are recorded in the property card and the *sanad*.

c. **The procedure at the Mysore City Corporation:** Transfer of ownership must be reported to the Corporation by the owner within 30 days of registration at the Site and Houses Registrar's Office. The application for *katha* transfer must be accompanied by, all the documents submitted for registration, and a *katha* transfer fee. After the tax inspector has conducted a field visit and verified the facts presented by the applicant, the comments of the inspectors is reviewed by the Corporation accountant, the assistant revenue officer, the deputy revenue officer and finally, the revenue officer. Only then is the change registered in the tax ledgers of the Corporation.

IV.2.v Interface between the Land Information and Property Taxation Systems

Although the City Survey Office is responsible for maintaining a revenue mapping system, it does not exist in practice. The maps available at this office are incomplete and are not regularly updated due to administrative inefficiencies as well as the dependence on a manual, plot by plot system of survey. Even if these maps were current and comprehensive, in the absence of any exchange of information between the City Survey office and the taxation authorities i.e. the Corporation, it could be of little benefit to the Property Taxation System.

IV.3 URBAN PROPERTY TAXATION SYSTEM

The Mysore City Corporation is principally responsible for the administration of the Property Taxation system within the jurisdiction of Corporation limits. MUDA also levies and collects Property Tax on properties on their land. This is only for a for a limited period of time, until jurisdiction of such land is handed over to MCC for administration of taxes and maintenance of basic services. The Karnataka Municipal Corporations Act, 1976, is the governing Act of the Corporation.

IV.3.i Source of Local Government Finance

The Property Tax is one of two principal sources of tax revenue of the local government. In FY 1990-91 and FY 1991-92 Property Tax accounted for 17% of total local receipts. In FY 1992-93 it was 18% of total local receipts (Table IV.3.i). The other principal revenue base is the Octroi.

The other revenue base assigned to local government are the realizations under special acts (such as cattle pounds, entertainment tax, receipt under Motor Vehicle Act, duty on transfer of immovable properties, etc.) Taxes under Special Acts contribute about 26% of local government revenues in FY 1990-91 and FY 1991-92, and 22% in FY 1992-93. In addition to taxes, the local government imposes a variety of fees for the use of public facilities (markets, gardens, slaughter houses, warehouses, etc.), fines, interest on investments and loans, etc. Revenue derived from this category of non-tax sources as a whole accounts for about 5%, 8%, and 6% in FY 1990-91, FY 1991-92, and FY 1992-93, respectively. Locally administered taxes and charges are supplemented by inter-governmental transfers, which accounted for less than 1% FY 1990-91. Data for the subsequent years were not included. Miscellaneous receipts (refunds, lorry hire charges, etc.) accounted for 5%, 11%, and 11% in 1991, 1992, and 1993 respectively.

Extraordinary debts, suspense heads (loans, deposits, advances, education cess, sales tax, library cess, health cess, beggary cess, income tax, etc.) accounted for 25%, 18%, and 21% in FY 1990-91, FY 199-92, and FY 1992-93 respectively. Water tax is administered and collected by the Karnataka Water Supply and Drainage Board.

Table IV.3.i Sources of Local Government Finance - MCC (Rs. in millions)

| SOURCES | | 1990-91 | | 1991-92 | | 1992-93 | |
|---------|----------------------------|---------|-----|---------|-----|---------|-----|
| | | Rs. | % | Rs. | % | Rs. | % |
| 1 | Octroi | 28.45 | 20 | 32.01 | 20 | 35.79 | 22 |
| 2 | Property Tax | 24.64 | 17 | 27.67 | 17 | 30.18 | 18 |
| 3 | Special tax etc. | 35.92 | 26 | 40.11 | 26 | 36.43 | 22 |
| 4 | Non-tax revenue | 7.56 | 5 | 11.99 | 8 | 10.89 | 6 |
| 5 | Govt. grant | 1.20 | 1 | - | - | - | - |
| 6 | Miscellaneous | 6.51 | 5 | 17.32 | 11 | 18.47 | 11 |
| 7 | Extra debt & Suspense etc. | 35.62 | 25 | 29.37 | 18 | 35.44 | 21 |
| TOTAL | | 139.90 | 100 | 158.47 | 100 | 166.6 | 100 |

Source: Mysore City Corporation records.

Notes: For FY 1991-92 and FY 1992-93, government grants were not included in this data.

IV.3.ii Property Taxation Structure in Mysore

In Mysore City the Property Tax is levied on the basis of *Annual Rental Value* of a property. The Property Tax consists of:

- i. House Tax (20%), and
- ii. Cess (6.2%) (Education, health, beggary, library).

Since 1988, Water Tax in Mysore unlike the other two cities is levied and collected by the Karnataka Urban Water Supply Board. The Board is responsible for installation of water supply infrastructure, distribution and taxation. Although the water tax collection system is independent of the Property Taxation system. It is collected by 'water collection' inspectors at the *Mohalla* Offices.

The property owners are informed of their liability to pay once a year. The tax, however, is collected twice a year. The Property Tax is administered through the tax division at the Corporation and Mohalla Offices located in each of the eight mohallas in the city²⁹.

Divisions within the Corporation involved in administration of Property Tax: Property Tax is identified assessed and collected through the efforts of three divisions of the Corporation:

- a. The Engineering Division which issues building licenses, aids in discovery of properties by sending information about new construction and alteration to properties to the Tax Assessment Division.
- b. The Tax Assessment Division plays the overall supervisory role. It is the sanctioning authority of all decisions regarding administration of Property Tax.
- c. The Mohalla Offices: The principle function of the Mohalla Offices is tax administration and collection. These offices constitute one Assistant Revenue Officer, one accountant, 6-8 Revenue Inspectors and Peons. These offices in conjunction with the Revenue Officer and Deputy Revenue Officer at the Corporation, are responsible for discovery, valuation, assessment, billing, collection, as well as the maintenance of all records of properties in their jurisdiction.

IV.3.iii Process of Property Tax Administration

Following is the sequence of steps undertaken by the Corporation, in administration of Property Tax:

a. Identification

There are four principal modes of discovery of properties for identification at the Corporation:

- i. Direct Notification by the Owner: Statutory requirements place the onus of declaration on the owner/person liable for payment. The sections 114 and 116, of The Karnataka Municipal Corporations Act, 1976, place the onus of declaration of taxable property on the property owners or persons primarily liable for payment of Property Tax.

Under section 114¹ it is the obligation of the transferor and the transfer to give notice of the transfer to the Corporation, "within three months after the instrument of transfer after its registration if it be registered or after the transfer is effected, if no instrument be executed", give notice of such transfer to the Corporation. In the event of death of the person primarily liable for payment, the Corporation must be notified within one year. In case a transfer is effected without

²⁹ In the market mohallas the revenue generated is in the form of rents. As the markets are owned by the Corporation itself which is exempt from Property Tax.

notice to the Corporation, the former owner remains liable for payment of Property Tax assessed on the premises including "any other liability he may incur through such neglect", until he gives notice of the transfer.

Under section 115, if any building in the city is constructed or reconstructed, the owner must give notice of such construction to the Corporation within fifteen days from the date of completion or occupation³⁰.

Table IV.3.ii Number of properties within the jurisdiction of MCC

| | <i>Mohallas</i> | Residential | Commercial | Vacant sites | Total |
|----|-----------------|--------------|-------------|--------------|--------------|
| 1. | Fort | 8455 | 675 | 1200 | 10330 |
| 2. | Nazarbad | 7800 | 200 | 2000 | 10000 |
| 3. | Krishenraja | 5350 | 1121 | 129 | 6600 |
| 4. | Chamraja | 15400 | 1700 | 3386 | 20486 |
| 5. | Devraja (A & B) | 12619 | 1683 | 2049 | 16351 |
| 6. | Mandi | 9446 | 127 | 671 | 10244 |
| 7. | Laskar | 13800 | 620 | 1732 | 16152 |
| | TOTAL | 72870 | 6126 | 11167 | 90163 |

Source: Mysore City Corporation records.

Note: The table shows seven instead of eight *mohallas* as the Devraja *mohalla* is subdivided into two offices.

ii. Notification from the Engineering Division of the Corporation -- Incase of new construction or major improvements: One of the more effective mode of discovery is the notification of the Completion of a building from the Engineering Division within the Corporation which issues building licenses in the area of Mysore City within the jurisdiction of MCC. A copy of the completion report, accompanied by a sanctioned plan of the building, details of the plot area and built area, details of construction materials, and cost of construction etc. is sent to the Tax Assessment Division after a completion certificate or an occupation certificate is issued to the property owner. This is subsequently assessed by a tax inspector and entered into the assessment register.

³⁰ If the notice of completion or occupation of a building falls within the first four months of a half year, the owner shall be entitled to the remission of half the tax for the year in case of new construction or half the enhanced tax in case of addition to the building.

Procedure for obtaining Building License: To obtain a Building License, a property owner must obtain various certificates and documents from various organizations. An application for building license must be accompanied by:

1. Plan of the building from a registered architect;
2. Up-to-date Tax Paid certificate from the Tax Division at MCC;
3. 'Katha' certificate from the Tax Division at MCC;
4. Sale Deed certificate from the Land Registration Office;
5. Notarized affidavit on GOI stamp paper as proof of identity from a lawyer;
6. Indemnity bond signed by two witnesses; and
7. Any other documents requested by the Corporation.

Upon the issuance of the license a betterment tax is levied and drainage facilities are installed. During construction, the owner must have the building inspected by an inspector from this division. Following a final inspection, a completion certificate is issued at a rate ranging from Rs.100 to Rs.200. During these inspections, any deviation from the sanctioned plans are either penalized or regularized (if the deviation is not too great) by the building inspector. This makes room for bribery and acts as a further deterrent to the property owners in obtaining building permission.

One of the few incentives of obtaining building license is that the connection to the drainage system of the city. But once this connection is obtained, in the absence of connection of the water supply or electricity supply with the completion certificate or Property Tax, there remains no incentive to obtain the completion certificate. Therefore, the liability of the Property Tax itself acts as a disincentive to obtain completion certificate.

iii. **Through regular field visits:** The third and apparently the most effective mode of discovery is through the field visits of Revenue Inspectors. As stated above, each *mohalla* has 6-8 Revenue Inspectors. The Corporation employs a total of 57 inspectors. The *mohalla* is subdivided into blocks under each inspector. These inspectors visit the area under their supervision frequently, and therefore, have a close knowledge of building activities in their area. The inspectors, as per the reports of the Revenue Office, consistently monitor and report unauthorized construction for taxation purposes. Such unauthorized construction is either demolished or as far as possible, exceptions are made to regularize these. Subsequently the ARV is reassessed and payable tax is enhanced. According to the revenue officer there is as little as only 3%-4% unauthorized property in the city. These unauthorized properties are mainly in the poorer neighborhoods are usually fostered by political power brokers.

iv. **Revision Assessment:** Once every five years a general revision is undertaken by the Corporation of all the properties on the tax roll. Seven assessment officers are hired for Revision Assessment for the entire city. These officers are usually experienced assessors, but are not employed by the Corporation. In order to avoid a conflict of interest the Karnataka Municipal Corporations Act specifies that these assessors should not be attached to the Corporation. Understandably it takes over two years to complete the general revision of the entire city.

b. Valuation

Property Tax in Mysore City is assessed on the basis of *Annual Rental Value* of the property. Section 109 of the Karnataka Municipal Corporations Act 1976, states that every building shall be assessed with its site. The Section 109 also defines the Rateable Value of a building or land as the "gross annual rent at which such building or land may at the time of assessment be expected to let" per month or year, less 16.66% of this rent in lieu of allowances and repairs.

No written guidelines exist for the actual criteria or method of valuation of properties. There are two principal methods of valuation adopted by the MCC. These are:

- i. On the basis of actual rent paid by the tenants.
- ii. On the basis of cost of construction, location of the property etc.

i On the basis of actual rent paid by the tenants: Rented properties are valued on the basis of actual rent paid or more correctly as declared by the tenants and property owners. Out twelve months rent two months rent is subtracted for maintenance cost and the remaining ten months rent is taken as the rateable value.

This annual rental value is assessed on the basis of the rent declared in the 'Rent Agreement' between the owner and the renter. The value stated in these rent agreements are often fictitious and are usually as per the Rent Control Act, well below the actual rent. The Corporation officials are well aware that the rents are often under-declared. In some cases the rents are assessed by 'local enquiry' of the neighbors. This is rare however. The declared rent usually forms the basis of valuation resulting in yet revenue loss for the Corporation.

ii On the basis of cost of construction and location: An elaborate method of calculation of rateable value exists for properties lived in by the owners themselves. It is based on the following factors:

1. Area of construction;
2. Materials used for flooring (mud flooring, cement, red-oxide, mosaic, and marble flooring) and roofing (clay tiles, asbestos-cement sheets, concrete roofing, etc);
3. Locality in which the property is situated, in terms of poor, middle and high income areas on the assumption that higher income areas have better amenities than the poorer neighborhoods;
4. Varying rates per square feet depending on the amount of area under construction. This rate varies according to the use of the building i.e. residential, commercial or industrial.

There are fixed schedules of ratios and methods of calculation of each of these factors. The values obtained for each of the factors are fed into formula from which the rateable value is derived (Refer Annex VI). The ratios differentiate between the assessed values according to the cost of construction, and localities according to the residents income group. But none of the officers interviewed knew how these are derived. These schedules had not been updated in at

least the last few years. It was immediately apparent and the officers admitted that these did not reflect the current market value.

Once the rateable value is assessed and reported in the Revenue Inspectors' report, it is sent from the *mohalla* office to the Revenue Office at the Corporation for approval. If there are no discrepancies, it is approved and sent to the *mohalla* office for billing. In case of discrepancies the Revenue Officer himself enhances or depreciates the rateable value according to his discretion. This procedure, again, leaves the door wide open for corruption.

In the event that this assessment is not acceptable to the property owner, he/she may appeal to the commissioner against orders passed by the revenue officer. If the results are still not satisfactory, the property owner may appeal to the Taxation Appeal committee, who is usually an elected member of the Local Council. As a final recourse the owner may contest the assessment in the civil courts. This entire process takes anything between six months to five or six years. While the case under litigation, no tax is levied on the property, resulting in another source of revenue leakage.

Revision Assessment: During a revision, the ARV is enhanced for all the properties alike by 100% for commercial properties and 50%-75% for residential areas. During a Revision Assessment the properties which have undergone a change of land use or built area are revalued and the tax payer notified of his/her new liability. The last revision, however, was undertaken in 1984, since the revision was challenged by the citizens of Mysore.

c. *Assessment and Rate setting*

The Section 108 of the KMC Act 1976 states that the 'Property Tax' shall be levied "at percentage not less than twenty and not more than twenty five percent of the rateable value of the property as may be fixed by the Corporation. The percentage so fixed may be different for different in different areas and for different classes of buildings and lands."

Under Section 110 of KMC Act, 1976, general exemption from Property Tax are given to certain properties such as the Central Government, State Government offices, municipal properties, public worship places, hospitals, educational institutions, burial and crematorium grounds, student hostels etc.

The Property Tax levied by the Corporation constitute:

- i. The House Tax at 20% of the rateable value, and
- ii. The Cess Tax at 6.2% of the rateable value. This consists of Education Cess [2%], Health Cess [3%], Beggary Cess [0.6%], and Library Cess [0.6%].

For vacant sites the tax is calculated at the rate of Rs.2.00 per 100 square meters only.

The Property Tax is levied at fixed percentage of the assessed rateable value of buildings irrespective of its sectoral use. The distinction is made during assessment of the rateable values which varies according to the quality of construction, locality, and the use of the building (commercial, residential or industrial). The tax rate is not up dated during a Revision Assessment, only the rateable values of buildings are enhanced.

Report of the rateable value and tax assessed by the inspectors at the *mohalla* office is sent to the Corporation for authorization by the Revenue Officer. Once approved the files are sent back to the respective *mohallas* for preparation of bills.

d. Billing

The bills are prepared manually at the *Mohalla* Offices by the accountant and the Revenue Inspectors. These bills are issued by the first of April. Bills are prepared and distributed by hand to each property. The manual preparation of bills and door to door distribution, is time consuming and builds in a time lag in the taxation system.

e. Collection

The total tax assessed for a property is payable in two installments once every six months - by September and by March of every year. As per the sections 112, 113 and 114 the Property Tax must be paid within by the person primarily liable for payment within sixty days after the commencement of every half year.

Follow-up on delinquents: If the payment is late by more than 15 days after this period, a penalty at the rate of 5% per anum os the tax remaining unpaid must be paid by the taxpayer. If the premise is given on rent the tax will be recovered from the tenant. In the event of further the default, any movable property on the premises may be auctioned. If the amount recovered is not adequate to cover the dues, the property itself may be auctioned. This, however, rarely happens. In case of severe financial hardship, the revenue officer as per his discretion allows the payment of dues including the interest charged, on an installment basis. Apart from creating room for further corruption, this results in substantial backlog and a net revenue loss to the Corporation.

Dual system of collection: The tax payers pay their dues at the *Mohalla* Offices. The method of recovery more in practice in one of door-to-door collection. After the distribution of the bills, the dues are collected by the Revenue Inspectors paying repeated visits to the properties.

IV.3.iv Tax Recovery Performance

Table IV.3.iii shows the tax assessed and percentage collection of the Property Tax for three financial years from 1990 to 1993. The recovery rate for FY 1990-91 is 61.4%, FY 1991-92 is 66%, and for FY 1992-93 it is only 35.5%. Even allowing for the 1992-93 to be an outlier, the revenue loss as per the demand assessed in FY 1990-91 and FY 1991-92 is as high as 38.6% and 34% respectively.

Table IV.3.iii Property Tax Recovery Performance of MCC

| | 1990-91 | 1991-92 | 1992-93 |
|------------------------|---------|---------|---------|
| Arrears till April 1 | 22.16 | 22.46 | 76.97 |
| Demand for the year | 30.96 | 33.82 | 34.9 |
| Total Demand | 53.09 | 56.28 | 111.87 |
| Collection | 32.62 | 37.15 | 39.71 |
| Percentage Collection | 61.4 % | 66.00 % | 35.5 % |
| Balance Due | 20.47 | 18.13 | 72.16 |
| Percentage balance due | 38.6 % | 34.00 % | 64.5 % |

Source: Mysore City Corporation records.

Note: Financial year is from April 1 to March 31.

Although the real amount of tax recovered in 1992-93 is larger than other years, it is lower than other years as a proportion of total demand assessed. This is attributable to larger arrears from previous years which forms a part of the total demand assessed for the year. How these arrears are derived is not clear from the data available, nor did the officers at hand provide a satisfactory explanation for it.

ANNEX V
COMPARATIVE SURVEY OF REAL MARKET RENTS AND ARVS:
BARODA

A quick survey was undertaken in Baroda to determine: (a) if the ARV assessed by the Baroda Municipal Corporation for taxation purposes reflected the actual 'informal' market value of properties; and (b) if not, to what extent did they differ.

For this purpose, addresses of twelve properties and their assessed ARV were noted from the assessment book of the corporation. Other details such as whether it was occupied by the owner or a renter was also noted. Out of the twelve, it was possible to obtain information on only nine properties. The methodology adopted to discover the actual market value of the rent was to principally interview the renters, when they were available and real estate agents. If neither were available, neighbors were interviewed for collecting information on the rental value of the properties.

The following table presents the list of the properties surveyed, their assessed ARVs and the real market rents discovered through the survey:

Table V.1.i Comparison of the assessed ARV and actual market rental value in Baroda.

| | Properties surveyed | Owner/ renter | ARV assessed by BMC (In Rs.) | Actual approx. market ARV (In Rs.) | Under Assessed by (in %) |
|---|--|------------------|---------------------------------------|--|-----------------------------------|
| 1 | Mukesh Bahi Soni G-2 Krishna Apartments, Parkarvada, Dandia Bazar (Residential) | Renter | 2400 | 96,00 | 75 |

| | | | | | |
|---|---|--------|-------|--------|----|
| 2 | Malti Vassant Karshikar 13 Ganesh Society, RV Desai Road (Residential) | Renter | 5340 | 30,000 | 82 |
| 3 | Ismail Ibrahim Tenant: Hussain Kureshi Shiyabag, Kumbhavada Nagar (Residential) | Renter | 5310 | 5400 | |
| 4 | Bikubhai Patel Tenant: Jayashree Bhai Patel A-1, Second Floor, Flat # 12, Sai Baba Apartment RV Desai Road (Residential) | Renter | 2400 | 18000 | 87 |
| 5 | Dinesh Dattaray Tenant: Pradip Kulkarni Flat #1, Dattaprasad Apt. Shankar Tehri, Dandiya Bazar (Residential) | Renter | 1680 | 13200 | 87 |
| 6 | Rekah ben Nitin Bhai Parekh Shop # 25 to 28 Dwarkesh Chambers Kewrabagh (Non-Residential) | Owner | 15000 | 48000 | 69 |
| 7 | Madhukar S'Adi Tenant: Vasudev Makhija Shop #1-2 Shivam Apartment, Shiyabag (Non-Residential) | Renter | 5400 | 28800 | 81 |
| 8 | Tarabhai Shivnekar Opp: Market Gorpades Paga Second Floor (Residential) | Owner | 2400 | 18000 | 87 |
| 9 | Tarabhai Shankar Tenant: Ranshankar Rao Opp: Market Ghorpades Paga Ground and First Floor (Residential) | Renter | 4500 | 30000 | 85 |

From the table it is apparent that these properties' assessed ARVs are underassessed by 69% to 87%. ARV of only one property out of nine matched the market value of the rent. Though the number of properties surveyed do not represent a statistically significant figure, the predominance of under-assessed ARVs, even in the handful of properties surveyed, indicate that most of the properties in the tax roll of Baroda are similarly underassessed. The reasons for such under-assessment has been discussed in detail in Chapters 2 and 3, and Annex II.

ANNEX VI
FORMULA BASED ARV ASSESSMENT TECHNIQUE:
MYSORE

VI.1 Methods of Calculating ARV at Mysore City Corporation

There are two principal methods of valuation of properties adopted by the Mysore City Corporation for the purpose of taxation:

- i. On the basis of actual rent paid by the tenant as declared in the rent agreement. This has been discussed in the section on valuation in chapter 4;
- ii. On the basis of cost of construction and locality of the property. The formula and ratios used for this method has been described in this section.

VI.2 Determining ARV for owner occupied properties— on the basis of cost of construction and locality:

This method of calculation of ARV is based on the following factors:

1. Area of construction;
2. Materials used for flooring (mud flooring, cement, red-oxide, mosaic, and marble flooring) and roofing (clay tiles, asbestos-cement sheets, concrete roofing, etc);
3. Locality in which the property is situated, in terms of poor, middle and high income areas on the assumption that higher income areas have better amenities than the poorer neighborhoods;
4. Varying rates per square foot depending on the amount of area under construction. This rate varies according to the use of the building i.e. residential, commercial or industrial.

Method of calculation:

- a. Every 100 square feet of the plinth area is termed as 1 square i.e. a 1000 square feet house is therefore 10 squares.
- b. Materials used for roof and flooring are factored in as ratios as per the values in the matrix presented in Table VI.2.i:

Table VI.2.i: Ratios for houses with different flooring and roofing materials:

| Flooring Roofing | Mud | Cement | Red Oxide | Cudapah, Mosaic | Marble |
|-----------------------------|------------|---------------|----------------------|----------------------------|---------------|
| Tiles | 25 | 52 | 55 | 61 | 66 |
| Zinc, AC Sheet | 30 | 56 | 61 | 66 | 72 |
| R.C.C. | 40 | 64 | 67 | 71 | 80 |

On the basis of this table a house constructed out of R.C.C. roofing and Mosaic Tile flooring will be calculated using the value 0.71 in the formula for ARV.

- c. Different values are assigned to properties located in different localities according to income groups. A property located in weaker section neighborhood is assigned the value 0.18; properties in middle income neighborhoods are assigned the value 0.19 and properties in higher income neighborhoods are assigned 0.19.
- b. Costs are fixed according to a slab of areas in squares as follows:

For Residential areas:

| Area (In 'squares') | Cost/per square (In Rs.) |
|--------------------------------|-------------------------------------|
| 1 - 5 | 31.00 |
| 5 - 10 | 33.00 |
| 10 - 12 | 34.00 |
| 12 - 13 | 36.00 |
| 13 - 14 | 37.50 |
| 14 - 15 | 39.00 |
| 15 | 30.00 |

Note : (1 square = 100 square feet)

For Commercial and Industrial area:

Between Rs. 50.00 to Rs. 100.00 per square, depending on the location of the property.

Therefore, for a property with 1000 square feet plinth area i.e. 10 squares would cost Rs. 34.00 per square. The ARV of a property with 1000 square feet area, (a=10 squares), constructed with R.C.C. roofing and mosaic flooring (b=0.71), in a middle income locality (c=0.19) and cost of construction d=Rs.34.00 per square is calculated as follows:

$$\begin{aligned}\text{Rental value for one month} &= \{a \times [b + c]\} \times d \\ &= \{10 \times [0.71 + 0.19]\} \times 34 \\ &= 306\end{aligned}$$

$$\text{Annual rental Value} = \text{Rs. } 306 \times 12 = \text{Rs. } 3672$$

Ratable Value: From the ARV only ten months rent is considered for assessment purposes. Therefore ratable value for taxation purposes is Rs. 3060.

As stated earlier, the basis for obtaining these ratios is not at all clear. None of the officers interviewed were cognizant of the method of calculating these ratios. The officers, however, were aware that the ARVs arrived at by this method did not reflect the actual market value of rents. Detailed discussions of this method of valuation is presented in Annex IV.

REFERENCES

- Bijlani, H.U. and P.S.N. Rao (1992), "Urban Land in India", Post Seminar Discussion Report, New Delhi, India, HUDCO Consultants.
- Davey, Kenneth J. (1993), "Elements of Urban Management", Urban Management Program, Washington, D.C., U.S.A., The World Bank.
- De Lys, Yolanda Ludovic (1989), "Revitalization of the Property Tax in Cote D'Ivoire, An Analysis of Contributing Factors", Professional Project, Philadelphia, U.S.A., Department of City and Regional Planning, University of Pennsylvania.
- Dillinger, William (1992), Urban Property Tax Reform, Guidelines and Recommendations, Urban Management Program, Washington, D.C., U.S.A., The World Bank.
- Eckert, Joseph K. and Natasha Kalinina (1993), Recommendations for Creating Property Titling and Real Estate Information Systems to Support Property Tax Systems and Privatization Process in Kazakhstan, Washington, D.C., U.S.A., I.C.M.A.
- Favacque, Catherine and Patrick McAuslan (1992), "Reforming Urban Land Policies and Institutions in Developing Countries", Urban Management Program, Washington, D.C., U.S.A., The World Bank.
- Government of Gujarat (1992), "The Bombay Provincial Municipal Corporations Act, 1949 (as modified up to the 30th June, 1992)", Gandhinagar, India, Government Central Press.
- Government of Karnataka (1990), "The Karnataka Municipal Corporations Act, 1976, and Rules Thereunder", Bangalore, India, Government Press.

Hartnell Anderson, F.G. (1967), "Manual of Revenue Accounts of the Villages, Talukas and Districts of the Gujarat State", Baroda, India, The Government Press.

Kingsley, G. Thomas, Jeffrey P. Telgarsky, and Bonnie Walter (1989), "India's Urban Challenge, Framework for an AID Strategy", Washington, D.C., U.S.A., The Urban Institute.

Unit for Housing Studies (1991), "Land for Shelter, Delivery of Serviced Land in Metropolitan Areas", Volume I, Summary and Policy Directions, Ahmedabad, India, School of Planning, Center for Environmental Planning and Technology.

USAID (1991), "Constraints Affecting the Efficiency of Urban Land Markets in India", Working Paper, Office of Housing and Urban Programs, Washington, D.C., U.S.A., USAID.

USAID (1983), "India, A Country Profile", Office of Foreign Disaster Assistance, Washington, D.C., U.S.A., USAID.

The World Bank (1993), "Housing -- Enabling Markets to Work", A World Bank Policy Paper, Washington D.C., U.S.A., IBRD/The World Bank.